FINANCING PROBLEMS OF THE SOCIAL SECURITY SYSTEM

HEARINGS

BEFORE THE

SUBCOMMITTEE ON SOCIAL SECURITY

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

FIRST SESSION

FEBRUARY 4, 7, 8, AND 9, 1983

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FINANCING PROBLEMS OF THE SOCIAL SECURITY SYSTEM

FRIDAY, FEBRUARY 4, 1983

House of Representatives,
Committee on Ways and Means,
Subcommittee on Social Security,
Washington, D.C.

The subcommittee met at 9:05 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. J. J. Pickle (chairman of the subcommittee) presiding.

[Editor's note.—The full committee received testimony from members of the National Commission on Social Security Reform and the Executive branch on February 1, 2, and 3, 1983. Those hearings are printed in a separate volume, Serial 98-3.]

[The press releases announcing the hearings follow:]

[Press release of Thursday, Jan. 6, 1983]

Hon. Dan Rostenkowski, Chairman, Committee on Ways and Means, Announces Full Committee and Subcommittee Hearings on Proposals To Address the Financing Problems of the Social Security System

Hon. Dan Rostenkowski (D., Ill.), chairman of the Committee on Ways and Means, U.S. House of Representatives, today announced a series of hearings to be held by both the full committee and the Subcommittee on Social Security to address the financing problems on the social security system.

The full committee will begin the hearings with testimony from the National Commission on Social Security Reform on February 1 and 2, to be followed by testimony from the Administration on February 3 afd 4, 1983. The hearifgs will be held in the main committee hearifg room, 1100 Longworth House Office Building, beginning at 10 a.m. each day.

Immediately following the full committee hearings, the Subcommittee on Social Security, chaired by Hon. J. J. Pickle (D., Texas), will hear testimony from Members of Congress and the interested public who have requested to be heard. The Subcommittee hearings will be held on Monday, February 7, through Friday, February 11, 1983, in the main committee hearing room, 1100 Longworth House Office Building, beginning at 10 a.m. each day. Additional hearings will be scheduled at a later time, if necessary.

DETAILS FOR SUBMISSION OF REQUESTS TO BE HEARD

Individuals and organizations interested in presenting oral testimony before the subcommittee must submit their requests to be heard in writing no later than Wednesday, January 26, 1983, to John J. Salmon, chief counsel, Committee on Ways and Means, U.S. House of Representatives, 1100 Longworth House Office Building, Washington, D.C. 20515. Witnesses scheduled to appear will be notified by telephone as soon as possible after the filing deadline.

It is urged that persons and organizations having a common position make every effort to designate one spokesman to represent them in order for the subcommittee to hear as many points of view as possible. Time for oral presentations will be limited with the understanding that a more detailed statement may be included in the printed record of the hearings. This process will afford more time for members to interrogate witnesses. In order to expedite the hearings, witnesses may be grouped as panelists with strict time limitations for each panelist.

In order to assure the most productive use of the limited amount of time available to question hearing witnesses, witnesses scheduled to appear before the Subcommittee are required to submit 100 copies of their prepared statements to the full Committee office, room 1102 Longworth House Office Building, at least 24 hours in advance of their scheduled appearance.

Each statement to be presented to the Subcommittee or any written statement submitted for the printed record must contain the following information:

1. The name, full address, and capacity in which the witness will appear (as well as a telephone number where he or his designated representative may be reached);
2. A list of any clients or persons, or any organization for whom the witness appears; and
3. A topical outline or summary of comments and recommendations.

WRITTEN STATEMENTS IN LIEU OF PERSONAL APPEARANCE

Persons submitting a written statement in lieu of a personal appearance should submit at least six (6) copies of their statement by the close of business Friday, February 18, 1982, to John J. Salmon, chief counsel, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C. 20515. If those filing written statements for the record of the printed hearings wish to have their statements distributed to the press and the interested public, they may submit 100 additional copies for this purpose if provided to the committee office during the course of the public hearing.

[Press release of Friday, Jan. 28, 1983]

HON. DAN ROSTENKOWSKI, CHAIRMAN, COMMITTEE ON WAYS AND MEANS, ANNOUNCES CHANGES IN THE SCHEDULE OF FULL COMMITTEE AND SUBCOMMITTEE HEARINGS ON PROPOSALS TO ADDRESS THE FINANCING PROBLEMS OF THE SOCIAL SECURITY SYSTEM

Hon. Dan Rostenkowski (D-Ill.), chairman of the Committee on Ways and Means, U.S. House of Representatives, today announced changes in the schedule of full committee and subcommittee hearings on proposals to address the financing problems of the social security system. The full Committee on Ways and Means will hear members of the National Commission on Social Security Reform on February 1, 1983. The Majority Leader of the House of Representatives, Hon. Jim Wright, will be the first witness on Wednesday, February 2, 1983, to be followed by Hon. Claude Pepper, Chairman of the Committee on Rules, and other members of the commission. Representatives of the Administration will be heard on Thursday, February 3, 1983. These hearings will begin at 9 a.m. each day.

The Subcommittee on Social Security will hear testimony from Members of Congress and the interested public who have requested to be heard on Friday, February 4, 1983, and Monday, February 7 through Thursday, February 10, 1983, at 9 a.m. each day. No hearing will be held on Friday, February 11, 1983.

All of the above-mentioned hearings will take place in room 1100 Longworth House Office Building, the main committee hearing room. For additional information, please refer to press release No. 1 issued earlier by the Committee on Ways and Means.

Chairman PICKLE. We will ask the House committee to come to order.

We welcome you here again this morning. This is the first day of the subcommittee hearings. For 1 week now we will be hearing a lot of witnesses and we will have to move as quickly as we can.

We are pleased to start the hearings this morning with testimony from one of our members, Hon. Richard Schulze from Pennsylvania, a member of the Ways and Means Committee.

Congressman Schulze, I notice that you appear also in connection with Mr. Walker from Pennsylvania. I notice that that is on a different matter, and if you will proceed first with your statement.

STATEMENT OF HON. RICHARD T. SCHULZE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. SCHULZE. I ask that my complete statement be made a part of the record.

Chairman PICKLE. Without objection, so ordered.

Mr. SCHULZE. Mr. Chairman, I first want to express my appreciation to you and the Subcommittee on Social Security for the opportunity to appear here today and to present my proposal for a social security savings bond.

This proposal, which I will introduce next week, would contribute to the solution of the near-term solvency problems of the social security OASI trust fund. Staff estimates indicate that by 1989, the cumulative cash flow benefits to the trust fund from the bond program would be $5.9 to $9.9 billion.

The social security savings bond program will create a new way for retired Americans to invest, and for these same retired Americans to participate in a patriotic effort to preserve the social security system.

The bonds would augment and enhance the proposals of the National Commission on Social Security Reform. In no way would the bonds detract from the compromise agreement. Rather, they would help close the gap between the revenues raised by the Commission proposal, $168 billion, and the estimated shortfall in trust fund revenues, $200 billion.

Here is how the social security savings bond program would work:

One, at the election of a social security recipient, the entire amount of retirement benefits (OASI) payable for a 12-month period would be disbursed by the Social Security Administration in the form of a bond registered in the name of the electing recipient.

Two, the bond would be issued at the end of the 12-month period, or a shorter period, in the event of the death of the electing recipient. Once issued, it could be redeemed or it could be held for any length of time.

Three, the bond would be free of all taxes: Federal and State income taxes, Federal estate taxes, and State inheritance taxes. The value of the bond and all accrued interest would be excluded from the taxable estate. Similarly, all interest earned on the bonds would be tax-free. Any amount of benefits that could otherwise be subject to income tax will be excluded from taxable income until the recipient redeems the bond. Then, 50 percent of the face value of the bond would be taxable.

Four, bonds remaining unredeemed at the death of an elector would pass according to the terms of the elector's will or the laws of intestacy. When redeemed by an heir or beneficiary under the will, neither the accrued interest nor the otherwise taxable portion of the bond principal would be taxed to the heir.

Five, in order to elect the bonds rather than monthly checks, an OASI recipient would make application to the Social Security Administration. The election would be irrevocable for 12 months, and could be renewed automatically.

Six, the bonds would be attractive for many social security recipients who are fortunate in their economic circumstances and do not need their OASI income for current purposes. The bond would be a desirable alternative investment because of the tax deferral on currently taxable benefits, because of the potential for permanent deferral if the bond is not redeemed before death, and because of the tax-exempt interest which would be earned.

Seven, the bonds would accrue interest at 70 percent of the Treasury bill rate beginning with the date of the first social security payment after the election went into effect. Interest would accrue on the full amount of benefits forgone, not just the otherwise taxable portion.

It is important to recognize the multiplier effect of the bond on trust fund revenues: By forgoing funds to be received through taxation on one-half of the benefits received by high-bracket taxpayers, the fund will retain all the cash which would have been paid out in benefits. Assuming half the benefits were subject to tax, and a taxpayer in a 50-percent bracket, the trust fund cash retention multiple is 4 to 1. For every tax dollar the trust fund loses, it gains 4 bond dollars. Assuming a 25-percent bracket electing recipient, the multiple is 8 to 1.

Note that only benefits taken as bonds and held until the death of the electing recipient will remain untaxed. Bonds which are redeemed during a beneficiary's lifetime will be subject to tax just as they would have been if received in the form of the monthly social security check. The trust fund will, however, have had the benefit of the deferral for the period the bonds go unredeemed—normally 1 year or more.

Skeptics have asked whether social security recipients can afford to forgo their monthly cash payment in favor of a social security savings bond. The answer is emphatically, yes, many can. Consider the following facts:

One, the Bureau of the Census has reported that in 1981, there were 2,095,000 families with at least one family member age 65 or older and a total family money income of $25,000 or more. Further, there were an additional 484,000 unrelated persons with a total money income of $20,000 or more. Of these persons collectively, 514,000 had total money income of $50,000 per year or more. Surely these Americans can afford to invest in the future of less fortunately retired Americans.

Mr. Chairman, I think the important points are that this proposal will in no way detract from the Commission's solution to our social security dilemma. It has the potential for raising at least one-third of the near-term shortfall, and we have used very conservative figures. I personally believe that it would be a little higher than that, but it is a solution, a partial solution to our short-term shortfall in the trust fund, and I would be happy to answer any questions which the committee may have on this.

[The prepared statement follows:]

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(1) The Bureau of the Census has reported that in 1981, there were 2,095,000 families with at least one family member age 65 or older and a total family money income of $25,000 or more. Further, there were an additional 484,000 unrelated persons with a total money income of $20,000 or more. Of these persons collectively, 514,000 had total money income of $50,000 per year or more. Surely these Americans can afford to invest in the future of less fortunate retired Americans.

(2) The New York Stock Exchange has reported that 4.5 million of the 30 million stockholders in the United States are 65 or older.

(3) The Exchange has also reported that as of mid-1980, 393,000 Americans aged 65 or older made their first stock or mutual fund purchase during the 5 preceding years. This compares with the 3,842,000 "veteran" stockholders aged 65 and over.

(4) Preliminary data from a 1979 study performed by social security shows that among persons aged 65 years or older, 14,668,000 had savings accounts; 4,861,000 owned certificates of deposit; 3,246,000 owned U.S. Savings Bonds; 593,000 received income from personal loans or mortgages. The study also found that there were ap-

proximately 4.3 million older Americans who owned dividend-bearing assets. The study disclosed that older Americans invest in a variety of illiquid assets as well as interest and dividend-bearing investments.

(5) A 1977 Consumer Credit Survey published by the Federal Reserve Bank found that families with a family head age 65 or over held significant assets in checking or savings accounts: Approximately 16 percent held $2,000 or more in checking accounts; over 40 percent held $2,000 or more in a savings account; 16.9 percent of the families with family head age 65 to 74 owned certificates of deposit; 8.8 percent owned certificates with a value of more than $10,000. In the 75 and over age group, 14.6 percent owned certificates; 7.9 percent owned certificates with a value more than $10,000.

(6) According to the IRS, 45 percent of all reported savings account interest is earned by people over 65, even though they represent only 11 percent of the population.

(7) A 1977 University of Michigan study determined that older Americans have a preference for bonds and savings accounts over investment in real estate and other investment modes. The rate of increase in preference for liquid investments increases as investors get older.

It is clear then, that retired Americans hold investments when they retire. And it is clear that those older Americans who have a substantial income stream will continue to make investments after their retirements. Social Security Savings Bonds will be an attractive investment option for both financial and patriotic reasons.

During World War II, the Government established the War Bond Program and gave it wide and forceful publicity. President Roosevelt gave his personal endorsement to the program by purchasing the first Series E bond issued. As is well known, the program was a success. The receipts from bond program played an important role in funding the war effort.

I believe that the Social Security Bond Program will touch a responsive, patriotic chord in the hearts of many Americans and that this will add to the success of the program.

Mr. Chairman, Social Security Savings Bonds are a means of improving the cash position of the OASI Trust Fund while maintaining the integrity of the National Commission's compromise package.

It is a program that will encourage well-to-do recipients to invest in the futures of other retired Americans who do not have their means. The investment would help save the social security system on which so many Americans depend for their survival.

The bond program would contribute not only financially, but also to an improved perception of the system by younger Americans. They would see that the system would be backed not just by the promises of government—those of us here on Capitol Hill—but also by the faith and investment of many social security recipients themselves.

Mr. Chairman, my colleagues, I thank you and commend to you the consideration of Social Security Savings Bonds.

Chairman **Pickle**. Mr. Schulze, we appreciate your testimony. We know that this is an approach that you have recommended to the committee, us individually and to groups of the committee. Many of us are trying to examine the merits of such a proposal in the light of its overall appeal as well as the desirability perhaps of considering it in view of our financial circumstances. Many of us I think are trying to make up our own mind about it.

Can you tell me whether the National Commission considered this approach? Did they endorse it or did they negate it? Or is it listed as one of the options?

Mr. **Schulze**. Yes, Mr. Chairman, although not in the specific form I have described today. I had a fairly different proposal on social security savings bonds which I had sent to the Commission. I believe the attractiveness of the bond proposal was enhanced by the Commission's recommendation to tax social security over the $20,000 income level. This would create an added incentive for bond participation. With the multiplier effect, which could be 8 to 1, or 4 to 1, depending upon the bracket of the individual, attractiveness to the system increases dramatically. I do not believe that the Commission looked at it in light of these factors.

Chairman PICKLE. I do not think the Commission recommended this approach or any specific approach about a fail-safe mechanism if we needed funds in the immediate or short-range area. They did list it as one of the options, and so, of course this committee should look at it in view of that overall inclusion in their set of options. Will the administration, that is the Social Security Administration or the present administration endorse this proposal? Do you know?

Mr. SCHULZE. We have been in discussions with them. They are looking into it and at the moment we have not received a firm answer, yes or no. As you know, most of the shortfall problems have sort of been thrown in the lap of the Ways and Means Committee and they said, "You come up with something good." I propose this as one of the possible solutions. It is not the "be all and end all." It is not going to solve all of our problems, but it has the potential for relieving perhaps one-third of the near-term shortfall.

Chairman PICKLE. If you grant a deferral and then a 50-percent tax later, what effect would this have on the national debt?

Mr. SCHULZE. This should have no effect on the national debt. This gets a little complicated, Mr Chairman. As you are aware, in the Commission's proposal the Treasury is to pay the long-term bond rate on reserves to the social security trust fund. If you factor out the potential for these bonds and their interest, there is about—because we are paying 70 percent of the Treasury bill rate—there is about a 4-percent arbitrage, and in 8 years the break-even point will be reached, and that this will actually cost the Treasury or cost the fund nothing.

Chairman PICKLE. Well, I want to recognize other members of the committee for any comment they want to make. I think that the concept is worthy of study and consideration and it shows a commendable spirit of initiative on your part. I think it might be more attractive if you were asking Americans to invest in social security savings bonds if the fund was solvent and was a viable, strong force. Having a prospect of a $168 billion deficit here just in the short run, many Americans may ask themselves would they want to invest in a program that is in those kinds of circumstances.

Mr. SCHULZE. Mr. Pickle, if I may comment on that point, I believe if this is enacted, accountants will very strongly recommend to their clients with fairly substantial incomes to take this option. It will be in their long-range interest to do so. As a consequence, many will opt for it. I do not want to discount, either, the patriotic aspect of this program. I know many individuals who have a fairly decent income but also receive social security, and when you talk to them about forgoing or sending back their social security checks, they get a little irate. They say, "I worked hard all my life and I earned it and deserve it." But they do not really need the income to live on for day-to-day purposes. I think that many of those individuals will opt for the bonds.

Chairman PICKLE. I agree we ought to give consideration to those in the bracket that might be able to afford it. Yet this is a part that gives an element of some uncertainty—the income or the investment might go up and may go down at a time when social security needs the funds most. This might introduce a concept of inheritance of social security benefits, which we have not had before. You have to ask is that suitable for an insurance program. But overall I think it is a proposal that attempts to offer some kind of choice or election to those people who might afford it, and I think we ought to look at it seriously as we go along.

Mr. SCHULZE. The inheritance aspects were put in as an incentive for the bond. Those people with large incomes are looking for a means to shelter it. Remember that multiplier effect. The fund benefits more than it appears just by the amount of money that is forgone.

Chairman PICKLE. Mr. Anthony.

Mr. ANTHONY. Thank you, Mr. Chairman. Well, Dick, I think you have come up with an ingenious idea clothed around patriotic purposes to be able to basically escape estate taxation. I know many people would like to totally abolish estate taxes to begin with, and I think this would do that. I agree with one comment you made. If we are to consider a means-tested policy change, that is, tax social security benefits at the $20,000 level for an individual, or $25,000 adjusted gross for families, then I think your proposal merits even greater study. It may be that this proposal could be included in the problem that we are talking about, the cliff or the notch. If you had $1 income above $19,999, you are going to be taxed more than others.

Mr. SCHULZE. We considered this. It will have some minor effect on the notch or cliff problem, but I would not want to create too great an impression that everyone who has an income of $2 more than $20,000 would opt for this. But it will have some minor effect in that area and perhaps narrow the notch problem a little bit, but it will not solve it.

Mr. ANTHONY. I do have one concern. We have a lot of tax-free bonds on the books now. Principally localities are using them because it is basically the only game in town as far as finding reasonable financing through this period of high interest rates. I am concerned that this not create an additional competitive market force for those municipal tax-free bonds since we find the cost of funding schools and other good endeavors going up.

Mr. SCHULZE. There is that potential, but in my opinion it is relatively minimal. Most people of an age to receive social security benefits have a tendency not to invest in those longer term certificates and items. They try to stay a little more liquid than that, and as a consequence it is our opinion that the effect on the "muni" market will be absolutely minimal if any.

Mr. ANTHONY. I yield back.

Chairman PICKLE. Mr. Thomas.

Mr. THOMAS. I would like to congratulate the gentleman from Pennsylvania. I think it is especially attractive since the Commission proposed the taxing position and that it is a reasonable alternative for keeping money in the fund for those folks who otherwise would create a political bloc that would agitate against it. As you said, it is not the end all and be all, we are having difficulty finding money for the long term. I want to commend the gentleman, and I am ready for a vote.

Mr. SCHULZE. Thank you. This has the potential as you project it out over the long term, depending upon the success of the program, of solving a portion of the long-term shortfall as well. We did not want to be overly optimistic and project figures which might be viewed as questionable. As a consequence, if we have erred, we have erred on the conservative side, and we do not want to oversell this, but our figures have been minimal and conservative, and I believe they are extremely realistic.

Mr. THOMAS. As we examine positions that we have been told cannot violate the President's position because it is such a tender balance between positions, it seems to me that can blend into the proposals being made without being opposed by a significant number of people. I will have to hear the other side of this argument, because it sounds very good to me.

I yield back.

Chairman PICKLE. I am sure the gentleman from Pennsylvania has made this testimony available to all the committees, particularly the subcommittee.

Mr. SCHULZE. I will do that, Mr. Chairman. I am going to introduce this proposal as a bill during the early part of next week, and if anyone would like to be a cosponsor, I would be happy to have them on board.

Chairman PICKLE. I am sure the subcommittee is glad to receive that view and that information.

I want to ask our colleague, Mr. Walker, from Pennsylvania to join you at the desk, and we can proceed with what other testimony you and he together might have.

Welcome to the committee, Mr. Walker.

Mr. WALKER. Thank you, Mr. Chairman.

Mr. SCHULZE. I ask that my testimony on the next item be submitted for the record, and I will defer to my colleague from Pennsylvania, Mr. Walker.

ADDITIONAL STATEMENT OF HON. RICHARD T. SCHULZE

Mr. Chairman, in 1965, Congress exempted from the social security self-employment tax those individuals who belong to religious sects conscientiously opposed to public insurance, in particular social security, and who, in addition, make provision for the care of dependent members. Recently, the Supreme Court, in *United States* vs. *Lee*, handed down a ruling which held that a member of the Old Order Amish sect must pay social security taxes on his employees' payroll despite his belief that such payment is a sin. As a result of that decision, my proposal minimally expands the narrow exemption now on the books to include employees who are members of certain religious sects and employers engaged in farming and their employees where both are members of such faiths.

Basic to the religious belief of the Amish community, which is the most notable sect to which this exception applies, are the principles of separation from the world and the related principles of mutual aid and self-sufficiency. These principles are grounded in the most basic tenets of their religion. In other words, the essence of being Amish is intrinsically related to providing for one's own people without governmental interference. Accordingly, the mutual aid extended to family and church members is practiced as a religious belief.

Few outsiders understand the intensity of this belief. For the Amish to participate in any government program which provides for the aged or sick is to admit that the Government has a responsibility for their welfare and to admit this is to deny the faith. The Amish are not opposed to all taxes. They are opposed to inclusion in a program which would erode their principle of self-sufficiency for themselves and for future generations.

The total population of the Amish community today is estimated at 90,000. While the Amish do not keep precise records of their membership, we know that approximately 50 percent of that number are children under 16 and 99 percent of Amish women do not seek employment outside the home. It is estimated that the Amish-men in the work force who are not self-employed number approximately 8,000 persons. Obviously, the number of workers to be exempted in my bill is small and their labor generates only a small amount of wages and taxes. Exempting a group of believers of this size has minimal impact on the revenues of the social security trust funds and hardly endangers the solvency of the social security system. The cost to the government in accommodating the religious beliefs of those unquestionably sincere sects is miniscule compared to the magnitude of the religious compromise forced upon them by requiring that they pay the social security tax.

The expanded exemption would only benefit a narrowly defined, clearly recognizable group. In matters of administration, I am informed that the Social Security Administration carefully scrutinizes all applications for the existing self-employment exemption to determine whether a sect is a legitimate one meeting statutory requirements. Therefore, granting the exemption proposed in my bill would not lead to abuse, uncontrollable expansion, or an undermining of the soundness if the social security system.

This legislation has been crafted to be consistent with the charter of Amish life requiring members to limit their occupation to farming and closely related activities. Clearly, the purpose is only to provide relief for those individuals who have long been recognized to believe that payment of social security taxes is irreconcilable with their religious convictions.

I appreciate the opportunity to address the subcommittee as it grapples with the future structure of the social security system. I hope the subcommittee, when it sets about crafting legislation, will make every effort to enact this narrow exemption as an application of the principles of religious freedom that play such an important role in our society.

Thank you, Mr. Chairman.

STATEMENT OF HON. ROBERT S. WALKER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF PENNSYLVANIA

Mr. WALKER. Thank you for the opportunity to appear before this distinguished panel on this important issue. As we search for solutions to the financial difficulties of the social security system, it is our duty to be fully cognizant of the impact of our decisions on every segment of our society. In particular, Mr. Chairman, I would like to draw the attention of the committee to the needs of the Amish, a small religious minority which forbids participation by its members in the social security program.

The Amish are conscientiously opposed to being a part of any private or public insurance program providing disabilty, medical, retirement, or death benefits. The Amish concept of self-reliance and community, with which I am sure many of the members of the committee are familiar, dates back to the 1500's, centuries before the social security system was created. These traditions have stood against the forces of change throughout the centuries.

The Amish have a built-in, tightly knit insurance system of their own. It provides for all the material needs of aged, sick, or unemployed Amish, and there are no known cases of this system of self-sufficiency failing. The Amish neither need nor are permitted to accept any form of insurance payments from outside their community. A fundamental tenet of the Amish faith is that it is a sin both to accept insurance benefits and to pay for them, for to do either would be to deny the faith.

At times, this policy is extremely costly to the Amish. For example, last year an Amishman was admitted to the University Hospital in Ann Arbor, Mich., for a renal transplant. The medical bill, which totaled $40,000, could have been paid in full by the Government because this particular Amish patient was eligible for coverage under the medicare renal program. However, because it would have been an infringement on the Amish faith to accept these benefits, the Amish congregations throughout the State of Michigan raised the money and paid the bill, promptly and in full.

The refusal of the Amish to participate in social security due to religious beliefs is a longstanding tradition, and one to which our Government has responded with sensitivity in the past. As part of the Social Security Act of 1965, Congress granted self-employed members of qualifying religious sects a waiver from social security taxes. Because the overwhelming majority of Amish were self-employed farmers at the time, Congress did not specifically provide an exemption from employer and employee taxes. This act of Congress was a great blessing for Amish constituencies all across the country and is deeply appreciated today by those Amish who continue to depend upon self-employment on the farm for their livelihood. The problem, Mr. Chairman, is that with the passage of years, a great number of Amish have been forced by economic circumstances to abandon their self-employed status, and take employment off the farm. Whatever the type of employment, however, the Amish conviction against participation in the social security system is as deeply held today as in the past.

My legislation would simply broaden the current exemption from social security to include employers engaged in farming and farm-related trades, as well as their Amish employees. I propose to accomplish this through a simple waiver from taxes for Amish employers, and through a refund procedure whereby Amish employees would receive a refund in the amount of the social security taxes that are withheld from their wages.

The legislative record of the 1965 act clearly shows that the real issue Congress faced was whether to grant an exemption from social security on the grounds of religious conscience. The issue then, and the issue now, is not the form of employment held by the persons conscientiously opposed to participation in social security. What we must address today is the question of whether an Amishman should be penalized for not confining his work to self-employment. The change in work patterns has done nothing to change the religious convictions of the Amish. If Congress was sincere in its desire to honor the beliefs of this unique religious sect, I believe we must recognize that the distinction which currently exists in the law between types of employment is irrelevant to the issue.

Under the current law, employed Amish must choose between two alternatives—violate the law or violate their religious conscience. They could choose, of course, to willingly contribute taxes to the system while refusing to accept the benefits they have earned. This, however, would not only violate the Amish faith but, even more importantly, would constitute an inequity that Congress need not and should not countenance.

Mr. Chairman, I wish to stress several important points concerning the narrowly defined purpose of my legislation. The broadened exemption I am proposing is strictly confined to the same category of persons to whom the current exemption applies. The same tight restrictions that were written into law in 1965 would apply under my legislation. The religious sect benefiting from the exemption must be one that has been in existence since 1950, and has been making provision for its dependent members. To qualify, the religious beliefs of the individual and the sect to which he belongs must include objections to the acceptance of the benefits of any private or public insurance which makes payments in the event of death, disability, or old age, and requires payments toward the cost of such services. Each individual to be granted an exemption under current law is required to waive the right of all benefits under any program established by the Social Security Act based upon either his own earnings or the earnings of any other person. This policy as well as all other narrowly defined standards under the current law would remain unaltered by this legislation. To qualify, it must be amply clear that the individual cannot accept the benefits of insurance, including social security benefits, without renouncing basic tenets of his religion.

It should be pointed out, Mr. Chairman, that the Amish are not opposed to taxes. As a group, they are probably the most law-abiding citizens in our country. They pay their taxes on time, and fulfill all civic responsibilities. There would be no problem if social security were defined primarily as a tax, but it is not. As the title suggests, it is an old-age and survivors' insurance program.

The second point I wish to stress is that the fiscal impact of my legislation on the social security program ranges from negligible to none, depending upon the assumptions you accept. Because the Amish waive the right to receive benefits—even though some are currently paying into the system—exempting them from mandatory contributions simply ends the current revenue windfall to the Government. If we accept that it is equitable and justifiable for the Government to collect contributions from the Amish—contributions that will never be returned to them in the form of benefits—only then could one conclude that there would be a revenue loss to the social security system.

It should be mentioned that a recent Supreme Court decision, in the case of *Lee* v. *United States,* bears directly on this issue. In that case, the Supreme Court ruled against a Pennsylvania Amish employer who refused to make social security contributions on religious grounds. Although the Court ruled against the Amish employer's claim to exemption from social security, the Court, to a large extent, deferred to Congress on the issue. The Court simply concluded that drawing nonremittable contributions from Amish employers and employees was not unconstitutional, and left the question of whether such a policy is fair or prudent to the Congress. Justice Stevens, concurring in the judgment, stated:

> Congress has already granted the Amish a limited exemption from social security taxes. As a matter of administration, it would be a relatively simple matter to extend the exemption to the taxes involved in this case. As a matter of fiscal policy, an enlarged exemption probably would benefit the social security system because the nonpayment of these taxes would be more than offset by the elimination of their right to collect the benefits. In view of the fact that the Amish have demonstrated their capacity to care for their own, the social cost of eliminating this relatively small group of dedicated believers would be minimal.

In other words, the Court has implied that if the current exemption is to be broadened, it should be done so by the Congress.

Mr. Chairman, Congress has the power to make this basic change, and in my opinion, an obligation as well. The Amish occupy a time-honored and respected position in our society, and we have all benefited from their unique and inspiring example. Throughout their history, the Amish have been able to hold, without deviation, to their deeply held principles of self-sufficiency and community welfare. Unfortunately, today those religious ideals stand in conflict with Federal law.

Mr. Chairman, I sincerely hope that that minor change I am proposing can be accepted.

Thank you, Mr. Chairman.

Chairman PICKLE. We thank you, Mr. Walker, and I am sure the committee will give this due consideration. I have not been as informed on this amendment approach as perhaps I should be. It is true that the Congress has granted a certain limited exemption of social security taxes to the Amish employers, and I take into account the comments that Justice Stevens had made. We still have a policy decision in the Congress of determining whether you can grant an exemption to an employer who might have people strictly Amish working under his employment or other non-Amish farmers working side by side. There is that policy decision to make, do we grant it to one and not the other.

Mr. WALKER. That is the reason why the legislation says that there can be a rebate to the employee so the employer would not have to make that decision. He would pay the taxes on the Amish employee and the Amish employee would receive the rebate.

Chairman PICKLE. We have to decide whether we want to grant that exemption. It is not a fiscal matter of concern to the overall program, but the subcommittee must give consideration to it.

Mr. Anthony, Mr. Thomas, do you have any questions?

Mr. Crane.

Mr. CRANE. I want to congratulate the gentleman for addressing a matter of major concern, in my judgment, and certainly the Amish tradition exempts it from some of the religious cults that have surfaced recently for tax purposes. The Amish go back to the pre-Revolutionary War era and I think they are a good example that all Americans might seek more to emulate in terms of their self-sufficiency and their sense of personal responsibility, and I would hope that the committee might view favorably the appeal made by the gentleman from Pennsylvania.

Mr. THOMAS. Mr. Chairman, do you have a definition on the books or has it been applied as to who is or who is not Amish? I am afraid the sect is going to jump tremendously.

Mr. WALKER. There is a definition on the books in the 1965 law. It says things like the group has to have been in existence since the 1950's, they have to totally renounce all collection of benefits. They have to be a group which does the job of providing for the social welfare of their particular members.

Mr. THOMAS. Safeguards in terms of definition that would apply only to Amish.

Mr. SCHULZE. I might add that application is made for the exemption and the IRS rules on it, so it is very narrowly drawn. I see very little chance for abuse at all.

Mr. WALKER. The only groups that we know at the present time that would qualify under the exemption are the Amish, the Old Order Mennonites, and the Hutterites.

Chairman PICKLE. I thank both of you gentlemen for your testimony.

The Chair will ask Congressman John Conyers, would he take a seat at the witness table. The Chair would like now to make this statement not to Congressman Conyers, but to all other witnesses. We have 15 to 20 witnesses, and we hope to hear them all today, who are Members of the House. This means that we must proceed rapidly, and we want to get all the testimony on the record.

The subcommittee has agreed that we are going to ask each Member to summarize his testimony. The entire statement will be included in the record. We would ask that each Member try to limit himself to a summation of 5 minutes or in that neighborhood so that we could move rapidly and consistently through the day. In that spirit of cooperation we are asking each one of our forthcoming witnesses to abide by the general agreement so that we can get everyone heard and do it as properly as we can. We are not going to try to remain rigid on it, but we ask cooperation from the Members and the people appearing.

We are pleased now to hear from Congressman John Conyers, one of the stalwart Members of the House and defenders of our great democracy. We are glad to have you here.

STATEMENT OF HON. JOHN CONYERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. CONYERS. Thank you, Mr. Chairman and dear colleagues. I am pleased to be here to try to put this enormous responsibility that you have in one policy consideration. The one consideration is, what are the just needs of these 30-some-odd million senior citizens who are the recipients of social security? If we put it like that, and I know you have examined this hundreds of different ways across the years, but I think this whole question of crisis needs to be examined from the point of view of the confidence that needs to be instilled into the system, and so, without too much knowledge of the nature of the previous testimony that has gone on here, I am here to suggest to you that one of the major problems that we have, and perhaps are not fully addressing, is the shocking minimal standard of payments that come to these 30-odd-million people that receive an average of $406 a month. I do not think that has been dealt on adequately.

The crisis as I see it is not how do we get out of this mess from now until July and how we move into the very cloudy future. I have been amazed by Alan Greenspan's very cool calculations decades ahead of all kinds of economic projections. I am thrilled by his ability to look so clearly into the future. I am not sure how much stock I put in those figures but, I can say this to you, is that our responsibility starts with asking the threshold question about the adequacy of the payments that emanate from the social security system, the human question. These are people, our people, who are now being treated in some quarters with a rather cool disdain. Most of the studies that I have read start off from the point of view of the dislocations of the budget, how we are going to finance this matter, and that it is getting more and more costly. So I want to suggest to you that, rather than these elaborate compromises that reduce the amount of payments by deferring cost-of-living increases is that we give beneficiaries a 2-percent increase rather than a 2-percent cut.

This may be shocking. Maybe nobody else will ever come before you and propose such a drastic consideration, but there are a couple of ways that it can I think be accommodated. One we have already passed in an earlier Congress and by this committee. As a matter of fact, it is a committee idea that in addition to interfund borrowing we have an ability when necessary and under limited conditions to go to the general revenues of the U.S. Treasury. I do not know how many times you have heard that before here, but we actually voted on that. We had hearings on it. The Ways and Means Committee made the proposal. It was debated on the floor of the Congress. It passed. I am just suggesting, in 1977 when it succeeded, that it succeeded because we were attempting to meet the confidence question—Lord knows the question of confidence now is much deeper and more pervasive than it was then.

The other way that we can provide this increase in the incomes received by the seniors is to raise the employer's part of the tax. I think we can afford it. That too is a proposal that came out of a Democratic administration. Exactly how far and where we want to raise it I think would be the subject of far more study than I have been able to put into it. But I think that that is the one recommendation that I am going to emphasize to this subcommittee today.

Let me close on one other category of people that I think are being ignored here, and that is the black, small entrepreneur, the self-employed person generally in the black community who is being asked to sustain an incredible increase in the self-employed tax.

It is unconscionable, particularly in view of economic times in which the black businesses are small and obscure and they are now being asked to absorb what I think is an unconscionable increase in their social security taxes. I have set forth, as you can see, one of the plans that would deal with this.

Now, I think we can do that and accommodate some of the panel's recommendations and speak to the views and the needs of most of the people on social security. Let me just stop with this one thought in mind, and I say this with some reluctance.

Most of the organizations that are claiming to represent social security recipients ought to start checking back with the social security recipients in the State of Michigan and the city of Detroit, because what I hear them saying is not what the local organizations and the people are saying to me, and maybe even to you.

That is, for God's sake, give us more than $94 a week. My proposal would give them the magnificent amount of $8 a month increase. That is a few billion dollars a year in an aggregate figure.

So, I am going to follow the instincts of a lot of the old folks I have been talking to, and they said the crisis, Congressmen, is not where the money is going to come from, it is the near inhumane circumstances that most of us are confined to in our late years after working all our lives.

I think it would be stimulative to the economy, too, Mr. Chairman and my colleagues. I don't think we would be doing an awful thing by putting a little bit more purchasing power into the hands of these senior consumers.

So with that, I thank you very much for letting me come before you. I am going to be following this very carefully. I know, Mr. Chairman, that you are perhaps the most knowledgeable man in the Congress on this subject. You sure spend a lot of your congressional life on it, and I am very grateful that you would entertain these thoughts today.

[The prepared statement follows:]

STATEMENT OF HON. JOHN CONYERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. Chairman, I would like to thank the committee for the opportunity to present my views on social security reform and on the recommendations of the Commission on Social Security Reform.

If I am reading the newspapers and other reports accurately, the so-called social security crisis boils down to the following: The American people no longer have confidence in the social security system, having been told for years that the system is going bankrupt.

There is in the next few years a problem of deficits in the operations of the trust funds of the social security system. There is also in some quarters a longer range concern about the system many years hence.

The Government by its actions must restore confidence in the social security system handle the shortfall in social security trut funds consider the long range problems of the social security system but, as the Secretary of the Treasury recently said, "We can't predict the economy 6 months down the road, let alone 20 years, it is difficult to make policy down the road".

In order to keep things simple, I am going to make just two points. These are:

(1) We must increase benefits by 2 percent, a minor step toward relieving the total inadequacy of social security benefits. The increase would be $8 per month per beneficiary. This would cost the system about $3 billion per year.

2. We must assist black business people to remain solvent by restructuring the social security tax on the self-employed.

Nobody in this room should have any illusion that the social security system is overly generous to retirees. Social security benefits are miserly and completely inadequate as shown by the following:

The average social security benefit is $406 per month. This is only $4,900 per year for those totally dependent on social security as many retirees are. Think of what this means in terms of $300 per month rentals and on top of this, food, heat, and miscellaneous expenses including medical costs not covered by medicare.

Of the retired on social security, 6.5 million (28 percent are below proverty levels. Of this group, 88 percent of their income derives from social security.

Of the black aged, 39 percent below poverty level. A black aged person is three times as likely to be poor as a white person.

Given these facts and figures, I am proposing an average increase of 2 percent although I am aware that this amount is itself inadequate to really improve conditions for social security beneficiaries.

The Commission report recommends that the fair way to make up for social system deficits is to cut benefits and to raise payroll taxes.

The social security tax is highly regressive, falling more heavily on the middle class and the poor than on the wealthy. Regressive taxation diminishes the purchasing power of those who support the market economy and thereby holds back economic recovery. It is the buying of goods and services that promotes higher production and consequently higher employment. Thus lower benefits and higher taxes will continue to undermine the social security system.

For these reasons, as well as the plain inhumanity of holding back promised increase, I strongly oppose the deferring of the cost of living increase now scheduled for next June. It is a breach of trust to millions of social security retirees and damaging to the economy as well.

The social security system has had operating deficits since 1974 which have averaged about $3 billion per year. The deficits are due to the high rates of unemployment which have existed during this period. Payroll taxes that unemployed workers would otherwise have paid are lost to the social system. The resulting deficits have eroded social security trust funds to the point that the funds are becoming exhaused.

Obviously something must be done to make money available to social security to cover the deficits. In addition, money must be provided to fund the two percent increase to all beneficiaries that I am proposing. I offer two steps that would make it possible to raise benefits as I am proposing and to overcome the fiscal difficulties the the system is experiencing.

(1) Provide legislation to enable social security to borrow from the Treasury when and if economic conditions make it necessary.

This is not a brand new idea. In October 1977, this very committee stated in its report on social security the following: "Your committee is especially concerned about the need for the public in general—current and future workers as well as social security beneficiaries—to be assured that the program will be able to meet its benefit obligations at all times . . . the committee believes that a further guarantee of the future financial stability of the program is necessary. Accordingly your committee has included a provision granting standy authority for automatic loans to the trust funds appropriating funds from Federal general revenues whenever the assets of a cash trust fund drops below a specified level in relation to annual outgo."

The House passed legislation embodying these provisions that year. A number of you on this committee will remember having voted for this legislation. How far backwards we have come in a brief 6 years.

The Carter administration that very year proposed a program of countercyclical financing of social security deficits. Under this plan, general revenue payments to the social security trust funds would be made during periods of high unemployment to compensate for revenues lost because of unemployment.

I recommend that the committee restructure the Commission recommendations to incorporate the Carter proposal.

(2) Raise the amount of the employers' income that is subject to the social security tax. If the present cap of the income subject to social security tax were raised from $30,000 to $100,000 per year, revenues to the social security system would be increased by the amount of $6 billion in 1984 and by greater amounts in subsequent years. Most of the employers are corporations.

The rationale for increasing social security taxes on employers is as follows: Of late, corporate employers have used their assets, not to buy goods and services but to make speculative investments and to buy each other out at inflated prices. Only in a growing economy will a prudent company invest in expanding capital equipment as is shown by the heavy decline in capital investment in recession years. Increasing employers' social security taxes would divert the money through social security beneficiaries back into the consumer economy, increasing industrial production and employment.

The second main point that I want to make is that the Commission recommendations for increasing the self-employment tax would be a blow to small business, particularly black-owned small business.

Most black-owned enterprises are operated by their owners and their owner are subject to the social security self-employment tax.

The self-employment tax now stands at 9.35 percent for the total of retirement and health insurance. The Commission recommends that the tax be raised by 2.55 percentage points to a total of 11.9 percent. This is a tax increase of 21.4 percent, an incredible burden on black and other owners of small businesses.

The Commission recommends that one-half of the additional tax be credited as a business deduction for income tax purposes. The sad truth is that many small business people today are in the lowest income tax brackets because of low earnings so that very little of the tax increase would be recovered at income tax time.

In view of the above, I strongly recommend that the full amount of the tax increase be treated as a Federal income tax credit for self-employed persons having moderate incomes. Otherwise there would be a rash of small business bankruptcies, both black-owned and white-owned.

To conclude, the current deficits in social security operations are due to abnormally high unemployment. The deficits that have recurred since 1974 would have been transformed into healthy surpluses had unemployment been at the 3-percent level during this period.

The recommendations of the Commission would aggravate the situation because they would seriously reduce the purchasing power of both workers and retirees who spend most of their incomes on consumer goods and services, thus supporting the economy.

Chairman PICKLE. We thank you, Mr. Conyers, and I appreciate your reference to the chairman's involvement with this program. It has been long and we do have a very serious problem. The Chair is not going to argue with you that some of the points you made are not well taken, because we do have some inequities.

We also have to defend the social security system overall, because it is the most important thing to the American people, outside of defense. Nothing is more important. How we can come out of our particular problem now is a difficult one. You may be right that one of the things we have to consider is some kind of a standby borrowing authority from the Treasury.

We have the prospects of a short fall in the immediate years ahead. We are not certain of those figures yet, and I am hoping that that will not be the case, but I live in fear of the dreadful news that always seems to be coming up about this program.

The approach you suggested may be one of the considerations. That will be controversial, but it may be we will have to do that to keep the system solvent. I will also observe that you may be the only witness here today who has recommended a 2-percent increase, and I don't say that in any spirit of lightness, because we have great problems in trying to figure out how to cutback rather than increase.

The point you make is to say that it is extremely important to our people, particularly the lower class of income brackets, and I wish we could say we can do that. I don't think I can encourage you that under the present circumstance that will happen, but I hear you, and I am glad you made the point, because it points out that it means a great deal to millions of Americans who see no other way to receive help from their Government.

Thank you.

Mr. CONYERS. Mr. Chairman, your point about this probably being the second most important program only to defense is very well taken. I think you are right. It is out of that consideration that I feel my responsibility is to bring to as many of my colleagues' attention the conditions under which we are now determining that our older people are going to live and die in this country.

I think $94 a week average is unconscionable. I don't have any reservations about saying that to anybody anywhere in this country. I don't think the average person could live on it. I don't think we could or would when we become eligible for that. I don't think it is moral, in these times of economic crisis, to tell the people on the bottom of the economy in America that they are going to have to carry the burdens.

Now, just one word about the employers, because somebody is going to think I am dumping on corporations. But the employers, I think, can very well absorb some sort of increased tax responsibility.

You know what is happening out here in the corporate world. There are mergers, there are conglomerate activities, there are spin-offs. They are doing everything but increasing the industry. There is very little of that going on and I think that we would be doing ourselves a great service to examine what these people who are the ultimate recipients are going to do, and I think this is going to be something that we will be hearing a lot more about.

Chairman Pickle. Mr. Anthony.

Mr. Anthony. I want to ask you one question. Since you did reemphasize the point about raising the employer's side of it. Actually, you are just finding a subtle way to tap general revenues by increasing the taxation to corporations. I understand your viewpoint, that corporations maybe ought to be taxed heavier, but as I understand your proposal, you are basically saying to raise taxation on corporations, bypass it going through the general revenues and the appropriation process, and it would be directly into the social security trust fund.

Mr. Conyers. No, sir, I am recommending both approaches. I am recommending in our first recommendation that we continue interfund borrowing, but also consider, when necessary, borrowing from our general revenues.

Mr. Anthony. Would you yield at that point? You are recommending a 2-percent increase, yet you don't propose additional taxes to pay as you go on that additional—you just say, let's borrow from the general revenue, the general treasury, if there is a shortage.

But to me that is a major policy change that you are suggesting, saying that, obviously, there would be a shortfall if you increase benefits, if there is a shortfall with benefits being frozen.

You are basically saying, let's tap general treasury for a general 2 percent across-the-board increase for benefits. Then that money is going to have to be made up by taxing somebody, because we have a shortfall in the general revenue fund.

Mr. Conyers. The second point is to increase the employer's taxability.

Mr. Anthony. That is the point of your doing it by going to general funds, and not going through the appropriation process, but earmarking it for the social security trust funds. That is your mechanism to pay as you go. You are making a major policy change of getting away from an employer/employee program——

Mr. Conyers. I wish I could disguise this to argue that it is not a major policy change. It is a considerable major policy change but it is one that we have considered before and passed on favorably. I happen to know the names of the colleagues on Ways and Means that have voted for it, argued for it and defended it in Congress along with myself.

Mr. Anthony. I don't think you should feel hesitant about the fact that there is a major policy change being recommended here, because the National Commission is making one by going to taxation of income of $20,000 and $25,000. That is a major policy change.

I think that the record ought to be clear where the money would be coming from to do what you are proposing.

I yield back.

Chairman Pickle. Mr. Crane?

Mr. Crane. Thank you.

It seems to me that the problems that the gentleman is addressing are problems that might more properly be addressed before the Public Assistance Subcommittee. This is a regressive tax, but it is certainly in the category of a flat rate tax, and one can make the argument, as has been advanced many times, that that burden falls heaviest on those in the lowest income brackets.

As the gentleman said, have you considered the possibility of funding the entire social security program out of general revenues, and would he be in favor of that?

Mr. CONYERS. I hate to suggest that you are sounding pretty drastic this morning, Mr. Crane, but I never made that proposal.

I never considered it.

I don't know anybody that advocates it, and I never heard you speak to it, and you have never heard me speak to it.

Mr. CRANE. I have debated with friends the advisability of going to general revenues to finance the entire system.

Mr. CONYERS. You won't hear that pass from my lips this morning.

Mr. CRANE. You are categorically opposed to dips into general revenues to help finance it?

Mr. CONYERS. No; the whole point of me being here this morning is to suggest that, under certain circumstances we may have to resort to going to general revenues.

Mr. CRANE. There are times you do favor it?

Mr. CONYERS. Not totally.

Let me say this: I don't want to put old people on welfare because the social security payments are so lousy. I have to reject that.

I want you to know how strongly I don't think that is an appropriate remedy.

If the payment is inadequate and we keep them at the poverty line, and that is what $4,900 is, maybe instead of telling them to go get some food stamps or welfare assistance, we might want to consider paying them what we would expect my grandmother and your grandmother to be able to live on for the remainder of the few years that they would be entitled to social security.

Mr. CRANE. Except, if the gentleman reflects back on the inception of the program, it was designed to supplement one's own pension program.

Mr. CONYERS. Well, maybe——

Mr. CRANE. If you are in that economic circumstance, you are almost compelled to have to depend upon the safety net in addition to your social security benefits, because it would be very difficult for a person to survive on $4,900 a year.

Mr. CONYERS. I am going to have to check my history on that.

Maybe you are right, but in 1935, there were not that many people that had any kind of additional benefit. There were just a very small percentage. You may remember that was during a depression.

Mr. CRANE. Traditionally people made provision for their own retirement prior to social security. There was no program, and so you had to make provision for yourself in your retirement years. There was no safety net at that time, either.

Mr. CONYERS. That was why social security was developed.

The simple fact is that most people could not provide for anything in their older years.

Mr. **Crane**. No, no. In fact, they did. Otherwise, presumably we would have many people dying of starvation or people who could not find housing, and the record shows that there was hardship to be sure, but my point is people made a conscientious individual effort, and this was to help relieve the burdens of retirement years. People made provisions, and if a person is going to subsist exclusively on social security, by definition he is eligible for welfare assistance.

Chairman **Pickle**. Mr. Thomas?

Mr. **Thomas**. Would you be supportive of a program that limits the minimum benefit levels to those without other retirement benefits? A lot of people qualify for social security under minimum benefits, but they really don't need it.

Would you be willing to limit those folks at the minimum level to those that do not have other retirement programs?

Mr. **Conyers**. That is an interesting question.

I have always been troubled by the fact that millionaires and paupers equally qualify under the same terms for the same amount of money.

Mr. **Thomas**. What about putting a means test on, in terms of distribution of those funds, say, by allowing only those people on the minimum levels who don't have any retirement plans?

Mr. **Conyers**. The reason I am hesitating is because once you start applying tests, you start slipping out there, and I get, frankly, a little bit worried about it, although I am troubled by the question.

I don't think I have a good way of dealing with it.

Mr. **Thomas**. We increased the millionaires' benefit by 2 percent. How about limiting those folks who don't really need it?

Mr. **Conyers**. My first concern is not toward the millionaires getting a 2-percent hike in social security, but toward the 36 million, the overwhelming majority, 90-some percent, who are not millionaires. I am afraid I will have to give the fellows with a big buck an increase. I hope they won't hold that against me.

Mr. **Thomas**. Not if we exclude them from the minimum.

Mr. **Conyers**. It is tempting. I swear to goodness, the only question that would follow from that, Mr. Thomas, is, though, where would we draw the line?

Should we exclude multimillionaires?

What about $100,000 income, or what about——

Mr. **Thomas**. How about the poverty level line? That is the means test, and it is distributed below that.

Mr. **Conyers**. Suppose I come before the committee after I have thought this out a little bit more and try to respond?

Mr. **Thomas**. My problem is, I am sympathetic to your concerns, but your remedy is an across-the-board remedy, and I don't think folks across the board need the remedy.

Mr. **Conyers**. How many people are millionaires in America?

Mr. **Thomas**. Using that as an extreme example, there are a number of people very well off. They are not the folks getting $94 a week.

Mr. **Conyers**. The problem you complain of, why don't you figure out how we are going to stop millionaires from getting $406 a month that they really honestly don't need? When you figure that out, I can tell you how to stop a 2-percent increase.

Frankly, it is an intriguing question.

Mr. THOMAS. Think about the option of limiting the minimum benefits to those folks who don't have any other retirement programs, and we will talk about it.

Mr. CONYERS. Would it increase your sympathy for my program if I could figure out a way of excluding millionaires on a 2-percent increase?

Mr. THOMAS. The witness before you testified about turning it into a bond program, and it would be very attractive. I am sympathetic to dealing with those folks at the bottom end. It is more difficult for me to talk about general treasury and 2 percent, as the solution for those folks at the bottom.

Mr. CONYERS. It is the best I have got to offer. You will be listening to many more persons than myself, and maybe they will come up with a better solution, and, if they do, I will be happy to go along with whatever it is, but the policy consideration is the point that draws me to your committee, and I appreciate this line of discussion.

Chairman PICKLE. Thank you, Mr. Conyers. We appreciate your testimony.

The Chair now recognizes the gentleman from Virginia, Mr. William Whitehurst.

We welcome you to the committee.

STATEMENT OF HON. G. WILLIAM WHITEHURST, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. WHITEHURST. I appreciate that, and it is nice to be back. I will summarize my statement.

Let me begin by saying how much I appreciated the opportunity several years ago to appear before the subcommittee to speak in favor of legislation which was subsequently incorporated into law to terminate the payment of disability payments from the social security program to people in jail.

I think you might be interested to know that last fall I received a telephone call one day from a newspaper editor in Sacramento, Calif., and he asked me if I had tracked the program to see how many prisoners had been taken off the rolls.

I said I had not. He said, would you like to guess? I said, oh, I expect about 3,000; maybe 3,500.

I can't verify these figures; I am just repeating what he gave me. He said they have already taken 5,000 off and have nearly 2,000 to go for a savings of approximately $30 million.

It is a tribute to this subcommittee, to its work. We have not saved an awful lot of money, but we have certainly served principle very well in the passage of that legislation.

Chairman PICKLE. Before you continue, we appreciate your statement. We jointly took action on this last year.

It gave people confidence that we can make some corrections, and we have done it, and we appreciate your participation in that.

Mr. WHITEHURST. That is why I am back today because, as a result of the investigations, we surfaced just the tip of a very large iceberg with respect to people outside of the United States getting social security benefits.

I requested a General Accounting Office study back in 1981, and that report was placed in my hands last week. What we are dealing with here is a two-pronged issue: alien retirees that have dependents living abroad in one category and legal and illegal aliens who unlawfully worked here in social security-covered employment.

The Social Security Act of 1935 did not restrict social security benefits on the basis of wage-earners' citizenship, so, as a result of that, aliens have been receiving benefits since the payments began in 1940.

What is astonishing is the growth of a number of people living outside our shores who have been receiving these checks.

In 1940, there were 100 social security beneficiaries living abroad, and getting $12,000 a year. That was the sum. In 1981, the last year in which we have statistics, nearly $1 billion was paid out to 313,000 people living outside the United States, and 194,000 of them were not U.S. citizens.

What makes this even worse is the fact that the average alien beneficiary in 1981 worked approximately 10½ years, paying his benefits in, but for all beneficiaries, the length of time was twice that.

The average alien on the roll in 1981 had paid $202 in taxes before receiving his benefits compared to an average of $2,160 for all beneficiaries.

These aliens had paid one dollar in for every $23 they were getting back, which I think is a pretty good investment.

It is interesting to note, Mr. Chairman, that 56,000, or 34 percent of the 164,000 dependents living abroad in 1981 were added to the rolls after the wage earner began receiving benefits.

Now, the dependents added, about 47 were aliens, 29,000 were spouses, 18,000 were children. We surfaced some pretty strange cases in this report, and I would like to recite a case verbally this morning.

One such alien in a foreign country retired at age 62 and 1 year later began living with his 15-year-old granddaughter in a common-law marriage relationship.

Over the next 6 years, he fathered two children. The children became eligible for benefits, received $12,896 over a 6-year period, and the benefits will continue for those children, and the youngest child will reach age 18 in 1995.

This case is not uncommon.

Mr. Chairman, the other aspect I mention addresses the aliens who have illegally engaged in employment and earned social security benefits in this country.

We don't have all of the statistics, and there are limitations on the numbers. We don't know how many illegal aliens, and this is a problem that the Congress is addressing with respect to a new immigration bill, but let's say it is 3½ million, and let's say that, and these figures are also, they are probable, that from 2.2 million aliens working in social security employment and received social security credits.

We don't know how many quarters they really have, but the estimates from the GAO are that the amount of money could range from $1 to $2½ billion annually.

I have introduced a—I put it in yesterday—and let me briefly, and I will conclude with this, I will give the specifics in this legislation.

Upon enactment, this applies to all future beneficiaries, benefits paid to individuals who are not citizens or nationals of the United States, and who reside outside the United States would be limited to the primary wage earner.

Additionally, a surviving spouse whose relationship existed at least 1 year before the wage earner's retirement would receive a benefit. Second, current dependents, survivors and beneficiaries not citizens or nationals of the United States, and who reside outside the United States, would not be entitled to future cost-of-living increases.

Mr. Chairman, this is fair, because the COLA's are based upon economic conditions in the United States

Finally, in determining benefit levels, noncitizens or nationals living in the United States would be credited only with the actual time of legal status in this country, and, as a P.S. to that, I will add that all treaties that now are in place that involve relationships between the United States and other countries with respect to beneficiaries of our system and American beneficiaries of other social security systems where they live abroad, would not be abrogated by this language and by this proposed bill.

Mr. Chairman, this is an opportunity to save not $30 million, as we have saved with the prisoners, but, down the road, to truly make a saving of hundreds of millions abroad, and perhaps billions in our own country of people who are illegally here and will ultimately be drawing benefits from the system unless this legislation is passed.

[The prepared statement follows:]

STATEMENT OF HON. G. WILLIAM WHITEHURST, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. Chairman and members of the subcommittee: First of all, let me say how much I appreciate the opportunity to testify before this distinguished committee today. The task before you is great as you seek solutions to the long-term financing problems facing our Nation's social security system, and I wish you every success in your deliberations.

Mr. Chairman, my testimony today will focus on an aspect of the social security system that, to my knowledge, has managed to escape close scrutiny for a number of years. The problem area I am going to discuss is one that may be draining our social security trust funds of several billion dollars today, and the potential of several times that amount if corrective measures are not taken soon.

Nearly 2 years ago, after certain information was brought to my attention, I asked the General Accounting Office to conduct a study of social security beneficiaries living outside the United States, as well as those who may have worked here unlawfully.

I have been concerned for a number of years that our overseas beneficiary population has been growing at a rapid rate and that the system administering it is vulnerable to fraud and abuse. Likewise, I have been concerned about the potential impact on the system of persons who have worked illegally here in social security-covered employment.

All of us, of course, have been grilled by our constituents about how we intend to save the social security system from going broke. It's been my experience that there is nothing that will enrage a person more than discovering someone is freeloading on the system.

In the 96th Congress, I introduced legislation to prohibit prisoners from collecting social security disability insurance. People who had been conscientiously paying their FICA taxes were astonished to learn that even an imprisoned mass murderer could collect nearly $400 a month in social security benefits.

Fortunately, a law was passed in 1980 to end that kind of abuse. And, while no one ever argued that the law was going to save the social security system from collapse, it did help restore the public's confidence in it, which is crucial to the system's credibility.

Mr. Chairman, late last week I received from the General Accounting Office a draft of the proposed report I requested in the summer of 1981, which I am submitting today for the record. After considering the findings of this study the certain other case histories of social security recipients living abroad, it is hard not to conclude that the social security system, which was formed in 1935 to provide greater economic security for workers in the United States, has grown into an international pension system with beneficiaries living in nearly 150 countries, many of whom have never, and will never, set foot on U.S. soil.

As a result, yesterday I introduced the Social Security Alien and Foreign Resident Limitations Act in an attempt to implement, what I consider to be, needed reforms in these areas.

I won't belabor this committee by citing every statistic in this study, but I would like to call your attention to a few salient points to put this issue in perspective.

The issue is two-pronged: (1) Alien retirees and their dependents living abroad; and (2) Legal and illegal aliens who unlawfully worked here in social security-covered employment.

As you know, the Social Security Act of 1935 did not restrict social security benefits on the basis of the wage earners' citizenship and, as a result, aliens have been receiving social security benefits since payments began in 1940.

In that year, there were 100 social security beneficiaries living abroad who received $12,000 in benefits. In 1981, social security paid nearly $1 billion to 313,000 beneficiaries living abroad. Of these individuals, 194,000 were not U.S. citizens.

In its study of overseas beneficiaries, the GAO makes the following observation: "We found that beneficiaries living abroad, on the average, had worked fewer years in social security covered employment, paid less social security taxes, and had more dependents than the average social security beneficiary. In addition, many of these wage earners added dependents to the benefit rolls after their retirement."

More specifically, the average alien beneficiary living abroad in 1981 earned 42 quarters of social security credits, equivalent to 10.5 years of social security-covered employment. The average social security beneficiary in 1978 had earned 82 quarters of credits or an equivalent of 20.5 years of employment. Aliens on the rolls in 1981, on the average, paid $1,202 in taxes before they began receiving benefits compared to an average of $2,160 for all beneficiaries.

The study estimates that the average alien family had received about $27,000 since 1961. This is about $23 in benefits for every $1 in FICA taxes paid before retirement.

With respect to dependents, alien dependents outnumber wage earners by 169 to 100, in marked contrast to 40 dependents per 100 wage earners in the overall beneficiary population.

Mr. Chairman, one of the interesting findings in this study, is that about 56,000, or 34 percent of the 164,000 dependents living abroad in 1981, were added to the benefit rolls after the wage earner began receiving benefits. Of the dependents added, about 47,000 were aliens, 29,000 of whom were spouses and 18,000 of whom were children. What this means is that many thousands of dollars in social security benefits can often be paid to dependents long after the wage earner dies.

As an example, one such alien in a foreign country retired at age 62 and a year later began living with his 15-year-old granddaughter in a common-law marriage relationship. Over the next 6 years, he fathered two children. The children became eligible for benefits and received $12,896 over a 6-year period. Benefits could continue until the youngest child reaches 18 in 1995.

Such cases as this are not that uncommon in countries where there are few retirement facilities. It is not unusual for an alien retiree to return to his native country and marry a young woman who will take care of him in his retirement years. When he dies, of course, she and any children they may have had are eligible for social security benefits.

The Congress has expressed concern over this issue before. With passage of the so-called alien nonpayment provisions in 1956, the Congress sought to restrict payment of benefits to aliens with relatively short work histories who chose to live abroad. Unfortunately, there were so many exceptions included in the amendments, most aliens are not affected by them.

Aside from these weak enforcement measures, which the GAO estimates affects only one-half of one percent of the alien population, the logistical problems in administering such a worldwide operation encourage some people to take advantage of the system through a variety of schemes, including phony adoptions and the widespread use of so-called "claims fixers" in some countries. Additionally, these alien beneficiaries receive cost-of-living increases like their counterparts in the United States, even though their increases have no relationship to the economies of their countries.

Mr. Chairman, the second aspect in this area I would like to address concerns aliens who have illegally engaged in employment and earned social security credits.

Despite the statistical limitations of the various illegal alien studies, the GAO has developed a rough estimate of the impact on the social security trust funds of payments to illegal aliens.

To illustrate the potential impact, it used the lower range of the most widely quoted illegal alien population estimate—3.5 million—and the lower estimate of those illegal aliens who had been employed while in the United States and paid social security taxes—65 percent. Using these data, it is estimated that from 2.2 aliens had worked in social security-covered employment and had received some social security credits.

Although it is unknown how many of these wage earners have earned sufficient quarters of credits to be eligible for disability or retirement benefits, the GAO developed three estimates to show the potential annual costs to the trust funds if 10, 15, and 25 percent of the illegal alien workers had qualified and were receiving benefits in 1981.

In short, those estimates range from $1 billion to about $2.5 billion annually.

At present, there is a gap between the provisions of the Social Security Act and the Immigration and Nationality Act, which allows aliens to earn entitlement to social security benefits while violating the Immigration and Nationality Act. Consequently, millions of aliens, both legal and illegal, may have engaged in unauthorized employment and earned entitlement to social security benefits.

The legislation I introduced yesterday provides that aliens filing for social security benefits only be credited with actual time of their legal status here.

In conclusion, Mr. Chairman, as your committee seeks to find solutions to the number of problems facing the social security system, I submit that this is an area that should not be overlooked in your discussions.

Chairman Pickle. Thank you.

Questions?

Mr. Anthony. I have a few questions I would like to ask.

I am not real sure that I understand the real purpose behind the legislation that you have introduced and the real purpose behind the testimony today, and let me just see if I can ask it in a simple question.

Are you opposed to the money leaving the United States, or are you opposed to those people drawing the money, to begin with?

Mr. Whitehurst. I am opposed to people who I don't believe are proper beneficiaries. I don't think that, as a matter of principle, fairness or intention of this law, that the people who put it together and succeeding Congresses who have amended the law and changed the benefit structure intended that anyone should come here who is, say, not a citizen, yes, get the benefits—that does not bother me if they are legally here and working—but then going back to another country, marrying someone at that point who will never come to America, fathering children.

Mr. Anthony. So, you would not object, then, to that person coming here legally, working, establishing the number of credits and going back. You would like some cutoff as far as the possible extension of those benefits and a continual drain?

Mr. WHITEHURST. Precisely. My legislation is very specific on this.

When you see it in print, it is easier to follow it.

Mr. ANTHONY. I would like to see it, because you have really addressed one of the more serious questions that is facing the U.S. Congress when you talk about the gap between immigration and the gap between social security. We tried to pass an immigration bill in the lame duck session that would have addressed part of your concerns, and I was just curious as to your personal feeling on some of those areas.

Are you personally in favor of the employer sanction for employers hiring illegal aliens?

Mr. WHITEHURST. That he has to determine ahead of time if that person is legal.

Mr. ANTHONY. In other words, if he reasonably knew that he was hiring an illegal alien, that he would be subject to some type of sanction?

Mr. WHITEHURST. Yes, sir.

Mr. ANTHONY. That would be a fair way to stem the tide of the illegal aliens coming in.

Mr. WHITEHURST. That is part of it.

Mr. ANTHONY. That was a controversial part of the bill.

Mr. WHITEHURST. Yes; I know.

Mr. ANTHONY. You talked about the illegal aliens coming in and then not drawing the benefit. I was curious if you addressed in any way what would happen to their moneys if it were determined that they were illegal, that they will be denied the benefits.

Would you support the moneys being returned to them with a reasonable amount of interest and also to their employer? Does your legislation address that?

I see a lot of thorny issues in this area that you have raised.

Mr. WHITEHURST. You are right; there is a connection between this and the immigration law that addresses the issue of determining on the part of the employer in hiring such a person.

My legislation does not spell this out. It simply says they should not get it; ergo, the money would be forfeited in this case.

Mr. ANTHONY. Well, I would like to applaud you, Mr. Chairman, because I think you brought up a legitimate point, a point that was brought up in the last Congress.

We are going to have to address the issue in this Congress, or it will even get worse in the outyears.

Mr. WHITEHURST. I will say, given the other tough choices that are being presented to us by the Commission that was established, what I am proposing is far disagreeable, I would think, to members of this body in voting for social security legislation than some of the provisions that the Commission is presenting to us.

Chairman PICKLE. Thank you.

Mr. CRANE. I wish to congratulate the gentleman for his testimony, and you have addressed one of the greatest outrages of the system from its inception.

I have introduced legislation in the past and intend to do it again on this point.

To me, any alien, whether legal or illegal, should pay the price for the privilege of working here without any refundable tax payments to him, and certainly no benefits whatsoever, and if he does not like those terms, stay home.

I really think, Mr. Chairman, that this issue is so serious, and obviously this subcommittee does not have time in the time constraints we are under right now to look into it, but I really wish that the oversight subcommittee, in tandem with this committee's hearings, might look into this, because there are many complexities to this problem.

Chairman PICKLE. Perhaps I should have said at the very outset, this question has come before our subcommittee, and we have discussed it on different occasions, and in some cases have attempted to introduce legislation to accomplish and correct it.

The bill we have before us is primarily a financing question.

The Chair has told the chairman of our full committee that he wants to have hearings on this matter as soon as possible. I introduced a couple of weeks ago a bill, and I did not include the alien matter in it.

We have asked for a preliminary study.

The committee does not want to do anything to take away the earned right of an individual who has contributed to the system.

We can't do anything about survivors, additions to the family, and we need to correct this.

We are going to have hearings as soon as we can.

Mr. CRANE. There is a disagreement on whether these people have earned benefits, because they are not American citizens, and unless they are in the process of becoming American citizens, I don't think they are entitled to anything. It is a privilege to be here in this country, and they don't like the recognition——

Chairman PICKLE. Well, Mr. Crane, we will have testimony on that point, Mr. Crane, and you are correct about it.

Mr. THOMAS. I do want to commend the gentleman from Virginia, because regardless of whether or not they ought to be citizens, we ought to go back to the provisions of your bill, which seem to be at least minimum, in that if you earn credits for social security, you ought to be here as an alien legally. If you are a beneficiary, you ought not to get a cost of living tied to the U.S. figures versus another country that you are in.

Your bill does not abrogate any other responsibilities?

Mr. WHITEHURST. No.

Mr. THOMAS. I would be concerned about that point in terms of making sure that, given the number of reciprocal agreements that we have with other countries, we doubly make sure.

Mr. WHITEHURST. The General Accounting Office is very comprehensive on this point, and we have crafted this legislation very carefully.

I thank all of you gentlemen, and particularly the last two, for your comments and views on this.

I offered a "Dear Colleague" letter, and yesterday I had 25 cosponsors already. Across-the-board, I think it is a very popular piece of legislation.

The more critical portions will be acted on possibly very soon.

Thank you very much, Mr. Chairman.

Chairman PICKLE. Mr. Frenzel, did you have a statement?

We welcome you here as an observer.

I recognize Mr. Bedell, Member of Congress from Iowa.

We are pleased to have you here, and we are glad to have your testimony.

STATEMENT OF HON. BERKLEY BEDELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. **Bedell**. First of all, I wish to commend your committee.

Chairman **Pickle**. We would be pleased to proceed on that basis.

Mr. **Bedell**. I think you do a great service, frankly, to the Congress, by being here, by having the questions that you have, and showing your concern to the American people. You are willing, as members of this committee, to take what time you need to, to consider all possible alternatives and give them careful consideration. I expect to support the package that you bring forth, even though I may not agree with all of the details of that package.

My greatest concern would be whether you go far enough in solving all of the problems facing our social security system.

I hope we would solve it sufficiently enough in the long term so I won't have to come back again.

I have reintroduced three bills which address the financial problems of social security. I would like to explain these bills.

One of them is a rather minor bill which helps to address a problem that we face, which is painful to many of my constituents. The second bill is already in the National Commission's package, and the third one is a major bill that at least my people support very, very strongly.

My first bill would end all payments to convicted criminals in penal institutions, Mr. Chairman.

I am going to summarize this, if I may.

Chairman **Pickle**. Fine, your statement will be in the record.

Mr. **Bedell**. Congress has taken action to eliminate a large part of this matter, but I believe that we still have somewhat of a black eye, as long as we are making social security payments to prisoners serving in penal institutions. Whereas the savings would not be great in ending these payments, I believe it is something we must do in order to make the whole social security system more equitable.

My second bill would modify the formula used to adjust benefits to keep pace with inflation by setting the social security cost-of-living adjustments at no greater than the rise in the CPI, or the wage index, whichever is lower.

Social security was established in 1935 as a Federal insurance program to provide supplemental retirement income.

Over the years, other social programs have been added to the social security system. In an effort to redirect the system back toward its original purpose, my third bill, H.R. 946, would reallocate the hospital insurance component of the payroll tax to the old age and survivors insurance and disability insurance trust funds, while paying hospital benefits from the general funds of the treasury.

My proposal has a double benefit, because the hospital insurance fund, as well as the retirement fund, is in trouble. Under all but the most optimistic economic assumptions, the medicare hospital insurance fund's deficits are expected to widen steadily under the Government's intermediate scenarios. The medicare hospital insurance fund could be bankrupt by 1991.

Under the most pessimistic scenario, the fund will be bankrupt by 1988.

The CBO estimates that my proposal will add approximately $39 billion to the OASI and DI funds in fiscal year 1984, $43 billion in 1985, and a total of approximately $245 billion over the 1984 to 1988 period.

These savings are substantial, more than enough to restore solvency to the system. By adopting this measure, we would not change benefit payments or raise taxes, but we would help put the social security system back on firm financial footing while at the same time ease the pressure on medicare, and it would not increase the deficit.

In conclusion, Mr. Chairman, by taking sensible and fair actions like the measures I have proposed, we can save the system billions of dollars, and put our social security back on a stable and financial base once and for all.

These proposals have come about as a result of my meetings with my constituents in northern Iowa and I can tell you that if these views are representative of constituents across the land, there is strong support for all three of these provisions.

Chairman PICKLE. Mr. Bedell, thank you.

[The prepared statement follows:]

STATEMENT OF HON. BERKLEY BEDELL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you today and briefly present my views on the financial problems facing our social security system.

Judging from hundreds of letters, phone calls and appeals raised repeatedly at the "Open Door" meetings I hold regularly across my district, it is apparent that no issue has alarmed so many Americans and caused so much anxiety as the future of Social Security.

Directly or indirectly, social security touches the lives of almost every American—young and old alike. There is no question that it is the central feature of the way Americans plan their financial futures. That security must be restored and preserved.

I want to commend the National Commission on Social Security for its deliberations on this important matter and for putting forth a consensus package of recommendations designed to solve the system's short range problems and most of its longer term difficulties. Although I do not agree with each and every proposal contained in the Commission's plan, I do praise its members for their courageous leadership.

At the same time, we cannot ignore the fact that the Commission's recommendations do not go far enough in addressing the longer term problems of the system. The Commission's plan will eliminate only two-thirds of the long-term deficit. In addition, the Commission did not address the increasingly serious problems expected in the Medicare program by the beginning of the next decade or sooner.

Because of unexpected economic developments in past years—high unemployment, rapid inflation, low real wage growth—the social security system has been forced to carry a heavier and heavier burden. Nonetheless, I am personnally committed to assuring that the millions of Americans who have paid into the system over the past 30 or 40 years and the millions more who will be paying into the system in the years to come receive every dollar of benefits they deserve.

Because of my deep concern for restoring financial solvency to the system, I appear before you to share three proposals which I believe will restore that solvency in the near and longer term.

The American people have been told that, because of the dire condition of the social security trust funds, we must either sharply cut back on benefits or raise the payroll taxes. I contend this is simply not true.

During the past few years, I have received helpful ideas from the people of northern Iowa on preserving social security in a fair and evenhanded manner. As a direct result of these ideas and suggestions, Mr. Chairman, I have introduced in the House of Representatives a three-bill package of reforms.

My package will not significantly cut benefits to those who are retired or near retirement age. They do not raise the tax burden on the working sector. My bills address the system's short and long term financial problems.

My first bill, H.R. 944, would end payment of all social security benefits to convicted criminals confined in penal institutions. Under current law, prisoners are receiving social security benefits through a loophole. Although I realize there are relatively few recipients presently in the prison system, the General Accounting Office estimates that this bill would produce a savings of $2 to $5 million per year. Even though this amount may not appear significant, it just does not seem fair to allow convicted criminals to continue to drain the system in this way. We cannot very well tell the person who has paid into social security for many years in good faith that he or she will have to settle for reductions in retirement benefits while we continue to allow prisoners, maintained at taxpayers' expense, to collect monthly social security checks. I would urge that this proposal be included in any social security reform legislation enacted by the Congress.

The second bill of my package—H.R. 945—would modify the formula used to adjust benefits to keep pace with inflation by setting the Social Security cost of living adjustments at no greater than either the rise in the Consumer Price Index (CPI) or the wage index, whichever is lower. The accelerated rate of inflation in recent years has raised concern that the present measure of inflation, the CPI, may be overstating the actual increase in the cost of living. In addition, the CPI has been criticized for its failure to account for shifts in consumer buying patterns and for its lack of relevance for particular groups in our society, such as the elderly.

The Congressional Budget Office projects that in the 1983 to 1989 period, my proposal would not produce additional revenues in the short term; however, it would relieve financial pressure on the Old Age and Survivors Insurance trust fund in periods of high inflation. I am pleased that the National Social Security Commission has included such a safeguard among its recommendations.

Finally, social security was established in 1935 as a Federal insurance program to provide supplementary retirement income. Over the years, other social programs have been added to the social security system. In an effort to redirect the system back toward its original purpose, my third—H.R. 946—would reallocate the Hospital Insurance (HI) component of the payroll tax to the Old Age and Survivors Insurance (OASI) and the Disability Insurance (DI) trust funds, while paying hospital benefits from the general funds of the Treasury. Since part B of medicare (supplemental medical insurance) is already supported mainly by general revenues, a precedent exists for such a change in the funding of the other portion of medicare.

Benefits received under HI are unrelated to a person's past contribution. Unlike the benefits a person receives under the OASI and DI programs, which are closely tied to the level of past contributions, hospital insurance expenditures are based exclusively on the need for medical care.

In my view, medicare is meant to be a program of minimum health care for every aged citizen regardless of prior employment, marital status or financial need. Thus, the cost of providing such basic medical care should be spread over the entire active working population to the extent possible, got just on those contributing to social security through the imposition of taxes.

My proposal has a double benefit, because the Hospital Insurance fund, as well as the retirement trust fund, is in trouble. Under all but the most optimistic economic assumptions, the medicare hospital insurance fund deficits are expected to widen steadily. Under the government's "intermediate" scenarios, the medical hospital insurance fund could be bankrupt by 1991; under the more pessimistic scenario, the fund will be bankrupt by 1988.

The Congressional Budget Office estimates that my proposal would add approximately $39 billion to the OASI and DI funds in fiscal year 1984, $43 billion in 1985, and a total of approximately $245 billion over the 1984 to 1988 period. (These estimates assume current law tax rates.) These savings are substantial—more than enough to restore solvency to the system. By adopting my measure we would not change benefit payments or raise taxes, but we would help put the social security system back on firm financial footing while at the same time ease the pressures on medicare.

In conclusion, Mr. Chairman, by taking sensible and fair actions like the bills in my social security package, we do not have to go back on our work to the people. We can save the system billions of dollars painlessly and put our social security back on a stable financial base once and for all.

Again, thank you for the opportunity to share my plan for a sound and strong social security future.

Chairman PICKLE. We are giving active consideration to your three points. We hope we have gone a long way in correcting the difficulty we had in the prisoners being able to draw disability benefits. We think that largely has been corrected.

Our studies may show we need to go further, but we have made great strides there.

We also, in this package, are trying to find a better cost-of-living approach, either CPI or wages, whichever is less, and that is as a stabilizer and follows generally the principle you have recommended.

The third consideration is something that may not be directly a part of this package, because it involves other jurisdiction, the question of the medicare costs.

This particular package the Commission has recommended does not get into the medicare question, and there is an implied recognition that part of it is now paid from general revenue, and there is the question of how much of this is directly related to social security.

That is under title XVIII, and that is a question for this Congress to face before long, or at least during this session of Congress.

You hit on three points, and we appreciate your testimony very much, and we thank you for it.

Mr. BEDELL. Mr. Chairman, if I may, I agree with you completely that the prisoner matter has largely been corrected. But to completely correct it would be an extremely advisable thing to do. I talked to one of the members of the National Social Security Commission, and was told that they did not give any consideration at all to the possibility of changing the financing of medicare part A, so it would be funded from general revenues.

I understand what you are doing. My purpose here is to bring this up as an issue, because I believe that at some future date there will be a consensus that my third bill should be included in social security reform legislation.

Chairman PICKLE. You make a good point on that.

Any questions.

Berkley, we thank you.

Mr. Thomas?

Mr. THOMAS. One question, because your proposal obviously has merit.

In talking with your constituents in Iowa, was there ever any discussion about the fact that when the age 65 was set in 1935, there was some relationship between working years and the leisure years after you retired? Take that same ratio of working years to leisure years and bring it up to date in 1980, it is really equivalent to 69 years; so that there has been a windfall gain of 4 years of leisure years.

What was the reaction, if there was a discussion, about the question of changing the age of retirement?

Mr. **Bedell**. It has been discussed extensively, and there are two feelings. First of all, there is agreement with your statement that the age has increased, and the working age has increased, and if it were phased in over a period of time, there is good legitimacy to that.

The concern that always come on the other side is when we don't have enough jobs for our people and we have such high unemployment, are we going to make that situation worse by telling people to work longer and not retire so early? I am not here to answer it, but you asked me what had come up in my district.

Mr. **Thomas**. Those are the two sides of the coin in northern Iowa.

Thank you.

Chairman **Pickle**. Our next witness will be our colleague, Mary Rose Oakar. Is she here with us today?

The Chair then will recognize our colleague, Geraldine Ferraro from New York.

We are pleased to have you with us.

STATEMENT OF HON. GERALDINE A. FERRARO, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Ms. **Ferraro**. Mr. Chairman, it is a pleasure to appear before this subcommittee today. The work you are doing here in the subcommittee and in the full Ways and Means Committee is of the utmost concern to millions of elderly Americans. The social security system is the single greatest Government program ever devised, and assuring its financial health—both in the 1980's and out into the next century—is essential.

As a member who represents more than 100,000 senior citizens and who sits on the Select Committee on Aging, I followed closely the deliberations of the National Commission on Social Security Reform. The members of the Commission deserve our commendation for honestly attempting to resolve the terribly complex and difficult issues they—and now we—face.

That said, I must add that I share the view seemingly held by every public official who has spoken out on the Commission's recommendations. There is not much in the package I like, and there are many issues which this committee and this Congress must carefully examine as we consider the Commission's recommendations.

I am not precluding the possibility of supporting the package, and in all probability will finally do so in the end.

One particular concern of mine is the proposal to require new Federal employees to contribute to social security beginning on January 1, 1984. The debate over universal coverage has been going on for years.

The attraction of universal coverage to those who have proposed it has always been the large short-term cash flow it would bring into the social security system.

The idea has always been previously rejected, however, because of compelling arguments that the adverse impact of universal coverage, both to the civil service retirement system and to social security, outweighed the short-run cash infusion to social security.

My concern now is that those compelling arguments are not going to be heard because of fears that any questioning or any changes in the Commission's proposals will cause the whole package to unravel. Again, I commend the Commission for its work. It has made tough choices that nobody likes to accomplish a goal that everybody wants. The proposal to mandate participation of Federal employees, however, creates more problems than it solves.

I do not support universal coverage of new Federal employees. As the subcommittee considers the issue, I urge you to pay special attention to three major questions. First, there is the need to provide for the retirement security of the new Federal employees. The current CSRS is a retirement plan; social security is an income supplement plan. Before new Federal employees are included in social security, we must have in place a separate pension program to supplement social security, as is the case in many private pension plans.

I realize that devising such a plan is the responsibility of the Committee on Post Office and Civil Service, of which I am a former member, and not Ways and Means. But I would strongly urge this committee to work with Chairman Ford and Chairwoman Oakar to guarantee that new Federal employees do not get caught without needed protection.

What I really want to stress is the importance of a supplemental program for women Federal employees. Because women typically have low-paying jobs, they do not fare well under social security. Partly as a result, women make up 72 percent of the elderly poor. Without a supplemental retirement program for new Federal employees, we would be contributing to the feminization of poverty.

The second issue is what happens to the CSRS as new Federal employees are brought into social security. Clearly, contributions to the existing plan will drop, creating a cash flow problem that could bankrupt the system within 40 years.

Reliable estimates of the gap that will be created as current workers retire if future workers are not paying into the system start at $185 billion. But that estimate assumes zero inflation for the next 40 years. Other estimates, using moderate inflation assumptions, range as high as $640 billion.

What all of that means is that to amortize the long-term debt created by closing the CSRS will cause substantial outlays from general revenues. In fact, by one estimate, during the time period 1983 to 1989, the amortization costs to the taxpayers will reach $56.7 billion. This is at a time when we are fighting deficits.

By comparison, the Commission estimates the savings from mandatory coverage during those years at $20 billion. So the increased costs due to mandatory coverage are $37 billion through 1989. Basically, this amounts to the single largest infusion of general revenue funds in the entire package. I happen to support the use of general revenues to bolster social security. But I think we ought to do it directly, and leave the CSRS alone.

I am particularly concerned that the committee not simply acquiesce in the notion that this is not a problem. Yesterday, in testimony before the Budget Committee, David Stockman simply denied that any such problem existed. We cannot just assume the money will be there. Too many future Federal employees have too much at stake for us not to address this need directly.

The final concern I have regarding universal coverage is its long-term impact on social security, itself. In the short term, it creates substantial new revenue with virtually no benefit payments. But as we get 30 or 40 years down the road, benefit payments will begin to rise substantially as the new Federal employees of 1984 become new retirees.

My fear is that we will see reduced worker-to-retiree ratios in a repeat of the phenomenon that has plagued social security in recent years. I urge the subcommittee to study this long-term question very carefully before approving universal coverage.

Before I leave, let me briefly mention one other concern. The Commission has proposed taxing social security benefits for recipients above certain income levels. I won't discuss the merits of the proposal, itself, but I would like to make one point regarding the income levels the commission recommended.

The Commission would tax individuals at $20,000 and couples at $25,000. I think the $5,000 increase for a couple is unrealistically low. Social security benefits now to a retired couple are 150 percent of what the single retired worker would get. I think that is a more realistic increase than the 25 percent provided by the Commission's proposal. Two people cannot live as cheaply as one, and we should be sensitive to that reality. Increasing the income level at which a couple would be taxed to $30,000 would be a fairer and more reasonable policy.

It is especially true that two can live almost as cheaply as one, though not quite.

I had a bill in the last Congress, and which I intend to reintroduce this year, which addresses the problems of the social security system when it runs into a situation such as it has in the past 2 years, fighting a recession, where you have a cash flow problem in any one of the trust funds—the cash flow problem caused by less people contributing and high unemployment.

The bill that I introduced last year would allow for the social security trust fund to go into general revenues when unemployment reached 6 percent for medical costs.

I will be reintroducing that this year, addressing the fact that health costs are escalating at an enormous rate and, and that if we are to do anything at all about the health care for the elderly, it should address itself to general revenues.

That concludes my testimony. Again, let me thank you, Mr. Chairman, and members of the subcommittee, for giving me the opportunity to discuss these critical matters.

Chairman PICKLE. Thank you, Geraldine. You have given us good testimony, and you stayed with the text, and you certainly have given us some good points.

I have one observation to make.

We recognize that the inclusion of new Federal hires is a controversial matter and Federal employees have every right to be concerned about what happens to their retirement funds.

We are not attempting to get into that area except our subcommittee and the full committee has promised to try to offer some kind of a plan to guarantee those rights. That is not our jurisdiction, as you have pointed out.

We felt, though, that we ought to have a plan that the members could feel that would be supported by the Congress.

We are advised that the chairman of the Post Office and Civil Service Committee has written to our chairman, to say that he recognizes it is a difficult matter, and he would hope that we would not attempt to pass a bill, a supplemental retirement plan, that his committee would do that, and they would go to work on that immediately.

That is in recognition that he will take this up and try to promote a plan that would guarantee the rights that you have listed, that all Federal employees would have a right to expect.

I am encouraged that that agreement has been reached, and his committee will be coming up with a plan.

I am pleased to know that.

I know Mr. Ford will produce a good bill from that committee.

Ms. **Ferraro**. I am delighted by the assurances of Chairman Ford and yourself, as well, Mr. Chairman. I really feel very, very strongly that Federal employees must be protected, and it is a pension plan, and I am delighted the Congress has taken that into account.

Chairman **Pickle**. We have had that assurance from Mr. Ford that he will take this up soon.

I thank you.

Mr. Anthony?

Mr. **Anthony**. Welcome before the committee.

I think you have touched on the more serious problem of this whole package. It is, as I recall, the fourth largest revenue producer. If that segment falls, the whole package probably unravels.

How do you tie together all of these other committees of jurisdiction? Every day, I have been asking that question. How many pension plans are there for Federal employees? The first number was 20. The second number was 30. Just this morning, the number has now gone to 90; so you can see that we have a tremendous problem on our hands of trying to figure out how to phase in if we do this for new hires in all of these various programs. It is a monumental task for the leadership of the Congress to bring them all together so we all reach a final destination on time.

Have you had an opportunity to receive a copy of a memorandum that went to the members of the National Commission on Social Security Reform from Robert J. Myers concerning the controversy over the recommendation to cover new Federal hires? Yesterday he came back with a memorandum that he said he had been carrying around in his hip pocket. It was his initial thoughts how to put together a supplemental retirement program—I have a couple extra copies.

Ms. **Ferraro**. Congressman Fazio had shared a copy of that memo with me during the budget hearings.

I am optimistic about our ability to deal with both problems, so that we don't end up destroying one for the benefit of the other. They can be approached realistically to everyone's satisfaction.

It is absolutely essential that we be fair to each segment of society within this plan.

Mr. **ANTHONY**. We will be looking upon your leadership to help us push this through.

Chairman **PICKLE**. Mr. Crane?

Mr. **CRANE**. I wish to welcome the gentlelady from New York before the subcommittee.

One concern I have about all of the Government retirement programs right now is they appear to be in worse shape in terms of responsibility and accountability than the social security program, inasmuch as two-thirds, 70 percent, are being funded out of general revenues right now.

Ms. **FERRARO**. It has been done before. Something like 80 percent of the pension plan the Federal employees have is funded by general revenues, as it is.

It is the other 20 percent that we are worried about.

Mr. **CRANE**. We can't assume the money will be there in the future. That would ultimately be a decision made by the Congress, would it not?

Ms. **FERRARO**. When I discussed whether or not money would be in there in the future, yesterday, in the course of the budget hearings, Dave Stockman indicated it really was not a problem because we are already contributing 80 percent to the pension plan, and if you add another 20 percent, it really isn't a big deal.

If you take a look—will we have a $300 billion deficit by the year 1989 which might be a problem for the Federal employees—that is what I was referring to, whether we in Congress and the administration will deal with the deficits so as to allow that not to be a problem.

Mr. **CRANE**. You don't share the notion that comforts some of our biggest commercial banks that sovereign nations can't go broke?

Ms. **FERRARO**. It is certainly not comforting to me.

Chairman **PICKLE**. Mr. Thomas?

Mr. **THOMAS**. I just want to go over some numbers again, because I, too, often hear the comment that what we don't want to do is throw good money after bad, and we don't want to destroy one to the benefit of the others.

In the Myers report, in fiscal year 1981 the Government contribution was $18.2 billion or about 4½ times the employee contributions of $4 billion. If we are, in fact, putting in 80 percent, we are putting in 80 percent with a budget that is over $200 billion in deficit, and so in terms of the security of that particular system, we have to understand that in the decade 1970 to 1981 the ratio of Government to employee contributions was 298 percent and for the entire period of the civil service retirement program, 1921 to 1982, the ratio of Government-to-employee contributions, is 225 percent.

We have a program that is not exactly sound, and to say that there is a surplus when 80 percent of the program is being paid out of a Federal budget that has a $200 billion deficit, boggles my mind in terms of saying we want to destroy one to the benefit of the other.

I support your part of the testimony which indicates that as we do cover new Federal hires, we have to augment and supplement, so that the coordination between social security and the new hires coming on gives them a full retirement program. But there are a lot of people going around talking about throwing good money after bad. We have to try to agree on the statistics in terms of which programs are successful and which are not.

The answer is, I think, none of them are.

Ms. FERRARO. This is a program that has been in existence since the 1920's. As much as we talk about the contribution of the Federal Government to the pension fund, it is an 80-percent contribution to the 20 percent; it has been a very successful program.

My Federal retirees in my district are living a lot better than the people living on social security. They have contributed a higher amount. When I first started working when I was 16, I was paying 1 percent of my pay to a maximum of $3,000 to social security, and Federal workers have paid 7 percent of theirs up to the top dollar. They have contributed, and they have paid taxes on their benefits, and I don't think we should at this time turn around and say it is not working.

I want to point out, I am not suggesting that we sacrifice, and I am not one who says, well, throw good money after bad; my concern is that social security is not enough, and that is a pension plan, and the contribution is really not an issue here.

It is a plan that exists because of a contract requirement with the Federal employee, and if you turn around and say to me you will put people into the social security system so they will derive benefits in the future, I am telling you it is not.

Mr. THOMAS. If the gentlelady will yield.

Ms. FERRARO. I will be happy to yield.

Mr. THOMAS. You say the current CSRC is a retirement plan. Social security is an income supplement plan, of course, and, therefore, those people on the civil service retirement plan are going to be better off on a pension plan than on an income supplement plan.

Ms. FERRARO. Exactly so.

Mr. THOMAS. The reason their pension plan is working is because we are putting general revenue funds into their pension program.

Ms. FERRARO. The issue is not why it is working.

The issue is what will happen to that program that we already have a commitment to the Federal employees to keep going.

Mr. THOMAS. Are you comfortable if the Post Office and Civil Service Committee can devise a joining of the supplemental income program under social security with a modified pension program, understanding that the retiree is going to receive benefits from both?

Ms. FERRARO. Let me just tell you that I feel very strongly that the Federal employees pension plan is a private pension plan, not private, but just like a private pension plan.

To say to Federal employees that you should take your pension plan and merge it with social security is unfair. Equally as unfair as if we went to AT&T—take your pension plan and merge it, because we need some help with the social security system, or went to any other private pension plan and suggested that.

I believe the social security System alone is not enough.

I believe that we have a commitment to the Federal employees not to destroy their pension plan.

It is a contract commitment with them, and I am saying to you that I would like to see this committee look very carefully at doing something not only as a committee, because you really can't, but as Members of Congress who are working on one part of it, not to forget the other part which is a concern for maintaining that pension plan.

Mr. THOMAS. Would the gentlelady from New York say——

Mr. ANTHONY. The time of the gentleman has expired.

Mr. THOMAS. One more question: Would you say it is fair to merge and create an add-on?

Is that unfair?

Ms. FERRARO. I don't think this committee will be doing that.

Mr. THOMAS. I am asking, would that be fair?

Ms. FERRARO. I don't know what you mean by an add-on.

Chairman PICKLE. Now, the Chair recognizes our colleague, Hon. Charles Stenholm from Texas, and my colleague from Texas is a very prominent Member of this House and a very active and effective Member.

We are pleased to have you here.

STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. STENHOLM. Thank you, Mr. Chairman. I do appreciate the opportunity to be here and to appear before your subcommittee this morning.

Chairman PICKLE. Your entire statement will appear in the record.

Mr. STENHOLM. I have a summary, and I will summarize my summary for you, Mr. Chairman.

I appreciate having the opportunity to express my views on behalf of the people of the 17th District of Texas. Twenty-two percent of my constitutents, 32.7 percent of the households in the 17th District, receive social security income. With one out of seven Americans currently receiving social security income, there is no question as to the importance of the topic of which you are holding these hearings.

If I have one regret this morning, it is that Mr. Frank Bane's testimony could not have been an active part of these proceedings, and I want to share, in my brief time, some of the attitudes that he has expressed in the waning years and moments of his life just a few weeks ago, before he passed away.

Chairman PICKLE. I am going to interrupt you at this point.

I put a statement in the Congressional Record about Mr. Bane. He was an amazing individual. He was here when we first created social security. I attended a luncheon about 1 year ago—1½ years ago. I thought he had been dead for 25 years. I had forgotten him.

You can see why he should be honored today, because he did make a significant contribution to this social security program in his very first years of its formation.

This Nation might not know Frank Bane, but we ought to know more about him, and we ought to put his name on the rolls of those who helped to protect a very vital system.

Mr. STENHOLM. I concur totally, Mr. Chairman, with that, and I find myself in substantial agreement with much of what Mr. Bane has said, even though I was not born when he was first making these utterances of brilliance with regard to the subject before us.

I, too, commend the Commission for the work that they have done, but the concern that I express to you today is the concern that once again the Commission has leaned far too heavily on the revenue side and not nearly as heavily on the side of the common sense that Mr. Bane spoke of so eloquently.

I would like to quote him again, pertinent to the point I want to make. Mr. Bane said:

> We never meant for social security to be considered a program to provide for any worker's complete retirement. It was never intended at any time—never, not for a moment—to be a full retirement program. That is why the amount of payroll tax was kept limited and why the amounts of benefits was also kept limited. You could sum up what has happened to the program in two words I never had heard of 10 years go: indexing and entitlements.

I want to speak to two myths, the myth we have concerning the "pay-as-you-go" program and the fact that there are many individuals today that don't believe they will receive what they have paid into the social security system. Every one of the current recipients are receiving far more in benefits than they paid into, and I hope this committee will consider that.

Regarding the proposal to gradually raise the retirement age—I would like to preface my comments by simply saying that such a proposal would have to be phased in gradually so as not to disrupt or hamper those who have carefully planned and anticipated retirement at the age of 65.

Life expectancy has increased, and Mr. Bane again, and I quote:

> I made a mistake. If I had it to do over again, I would make several changes. I believed old man Solomon. He didn't know what he was talking about. Instead of three score and 10—he was way off base. I would change the age situation. Instead of three score and 10, I would make it four score and 10, but do it very, very gradually. I would emphasize, as I do all the time, that no one under any conceivable circumstance is going to lose a dime of what they are now, underscore now, getting.

Well said, I would say, Mr. Bane. What I would like to say to the committee this morning, Mr. Chairman, I think there are several things that you can look at, and without belaboring the point as far as the myth that the elderly of our Nation today are poor, certainly it is not a fact.

It is a fact that, the overwhelming majority—in fact, by contrast, according to recent polls, the elderly with incomes in the top 20 percent, family income over $30,000 receive about 30 percent of the total benefit payments. In fact, the social security outlays for such relatively well-off families is more than the combined outlays for the major needed welfare programs—food stamps, aid to families with dependent children, medicaid, and supplemental security income. Again, I think some structural reform, much further than what the Commission has proposed, is in order.

I have no problems with freezing of cost of living adjustments for 1 year. I have no problems with limiting future COLAs to a more realistic level.

The concept of taxation of benefits in certain conditions makes a lot of sense. I think we need to think in terms of reinventing the wheel, so to speak, going back to Mr. Bane's original proposal and looking at the future benefits for people my age, 44 and younger;

raising the retirement age again 1 month a year for the next 36 years makes so much sense.

I hope the committee will do it. I know, Mr. Chairman, this has been an idea that you have been advocating. Only after doing those five things should we consider universal coverage, because I have some real problems with the short-term bailout of the social security system by bringing the Federal employees in under the circumstances in which the Commission recommends it.

I think that it makes sense on an equitable basis, but not for the basis of a short-term bailout that is going to make a long-term problem more serious.

In closing, Mr. Chairman, I would like to share a letter I received from one of my elderly constituents last November.

> I am a social security recipient. My monthly social security check is slightly less than $320. It is certainly not easy to live on that amount. I am concerned about the social security system and would gladly sacrifice the few dollars it would take to put social security back on a sound basis. Why should we keep raising social security taxes more and making it harder for young families to live. Why should they do all the sacrificing? There are many more citizens that feel as I do.

That letter is by no means typical of how social security recipients feel about social security reform, but it is representative of the concern and the frustration many Americans feel regarding the uncertainty of the program. It is also indicative of the reasonable attitude an elderly person can have when they are fully informed of the facts.

I have encountered concern, bewilderment, and hostility until I have time to explain the problem when addressing constituent inquiries regarding social security reform. It has been my experience in my district, our senior citizens are almost always reasonable and understanding when confronted with the facts.

Our society needs and wants protection from changes in income resulting from retirement, serious health problems, and debilitating poverty. The social security system has provided this floor of protection and more, but if it is going to be there for future generations, reforms must be made.

I would like to once again commend the National Commission on Social Security Reform and this subcommittee for beginning the arduous and necessary task of addressing the social security crisis. For the 32.7 percent of the households in my district and for the many other households hoping to receive social security benefits one day, I urge the subcommittee not to postpone making those painful but necessary structural reforms. I implore you not to succumb to continued politicizing of this issue by those who for one reason or another choose not to recognize the seriousness and the reality of this crisis. Our Nation's elderly have worked hard to make this Nation what it is today, and I do not believe that they want to leave a legacy of excessive taxation and debt to their grandchildren and great-grandchildren. To do so is nothing less than a cruel hoax.

Our elected representatives must address this issue in the most straightforward and equitable manner possible, devoid of partisan politics. I pledge my assistance, Mr. Chairman, to you and to this committee in working in that direction, responsibly and reasonably, and I hope that the words I have seen quoted and attributed to you, that the Commission report is a first step in the right direction, a beginning point is that exact philosophy this committee will carry forward on this most important question.

[The prepared statement follows:]

STATEMENT OF HON. CHARLES W. STENHOLM, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

Mr. Chairman, I appreciate having the opportunity to express my views concerning reform of the social security system. Twenty-two percent of my constituents in the 17th District of Texas are elderly, and 32.7 percent of the households in my district receive social security income. with one out of seven Americans currently receiving some type of social security benefits, there is no question as to the importance of this program to the American way of life. I do regret, however, that as the subcommittee conducts its hearings into the issue of social security reform they will not have the benefit of testimony from Frank Bane, the man who chaired the commission that wrote the social security law; he passed away recently at the age of 89. I share Mr. Bane's attitudes toward the direction our social security system has taken, and I think his own testimony would have proven invaluable to the subcommittee.

The American people have been assured that the Congress will not allow the social security program to go bankrupt, and we in the Congress have an obligation to present and future beneficiaries and workers that the social security system will remain solvent. The National Commission on Social Security Reform has reached a compromise agreement on the short-range steps necessary to restore fiscal solvency for the social security trust funds. Reaching any kind of agreement on an issue as complex and volatile as the social security issue is no small accomplishment, and I commend the Commission for beginning to address this issue. The Commission determined that the social security trust funds will require $150 to $200 billion, either in additional income or in decreased outgo for the calendar years 1983–1990, in order to avoid bankruptcy. Unfortunately, the Commission has chosen to increase revenues by $126 billion, while lowering future benefits by only $43 billion. In addition, the Commission recommendations will open the back door to general revenues funding for the social security trust funds.

Short-range fiscal solvency of the social security system is only one of the challenges which must be met by this Congress, however; of equal importance is the need to reform and restructure the entire social security system so that the workers of today and tomorrow are not saddled with ever-burgeoning payroll tax increases, and the decrease in their own living standard which such tax increases necessitates. We have an opportunity to make those changes which will insure the continuation of this vital program, and we cannot afford to fail in our task.

Following the Great Depression, our society demonstrated its belief, through its government, that every individual should enjoy a minimum standard of living and a minimum level of health care; this welfare concept is well-ingrained in the political and social structure of the United States. The Social Security Act of 1935 established a system which was designed with at least a part of the actuarial reserve that would be necessary to fund a comparable privately oriented program. Amendments to this act, however, steadily shifted the emphasis more in the direction of expanding coverage and weakening the relationship between benefits and contributions.

In the past, many people viewed social security as the sole means by which they were providing for their own retirement, and I think the federal government failed to correct that misconception. The fact of the matter is current social security beneficiaries have a stunning "present value ratio"—the ratio of the current cash value of all expected benefits in relation to their contributions and those of their employer. If we do not return to a logical and fiscally responsible relationship between contributions and benefits, the entire social security system could collapse. Already there is a tremendous loss of confidence in this system. A recent national survey asked workers whether they felt they would, in fact, ever receive social security benefits; 84 percent between the ages of 18 and 44 did not believe they would receive social security benefits. Restoring confidence in the social security system is critical to its survival and well-being.

The 95th Congress attempted to meet the social security challenge with passenge of the Social Security Amendments of 1977. In its summary of the conference agreement or H.R. 9346, the Social Security Amendments of 1977, the Ways and Means Committee stated that one of the major accomplishments of that legislation was "the restoration of the financial soundness of the program in the near term and into the 21st century". Unfortunately, this has not proved to be the case. High automatic cost of living adjustments (COLA's), high rates of unemployment and inflation, low or negative real wage growth, and increasing income replacement rates for retirees have adversely affected the Old Age and Survivors Disability Insurance (OASDI) trust funds; many of these factors threaten to pose continuing problems in the years ahead. The automatic indexing of social security benefit increases alone, through the use of the Consumer Price Index (CPI), has cost the social security system more than $211 billion since 1975.

There are at large several myths concerning the function, purpose, and scope of the social security system. As I mentioned earlier, the Government has failed to make clear just what an individual should and could expect from this program. During the First Session of the Eighty-Third Congress, the Ways and Means Committee conducted hearings regarding The Legal Status of OASI Benefits. During the testimony, Mr. Altmeyer of the Social Security Board stated: "The cost of any system of benefits will mount rapidly with the passage of time as a larger proportion of the population reaches retirement age. Consequently, a scale of benefits, the cost of which would be altogether reasonable now, might be unduly burdensome at the end of a generation. Therefore, in making increases in benefits, particularly in the early years of a system, it is essential to keep the ultimate cost in mind. It is impossible under any social insurance system to provide ideal security for every individual. The practical objective is to pay benefits that provide a minimum degree of social security as a basis upon which the worker through his own efforts will have a better chance to provide adequately for his individual security."

Concerning the present Social Security benefits structure, Frank Bane said: "We never meant for Social Security to be considered a program to provide for any worker's complete retirement. It was never intended at any time—never, not for a moment—to be a full retirement program. That is why the amount of payroll tax was kept limited and why the amount of benefis was also kept limited.

It was meant to be a cushion, a supplement to whatever a person had, and it was assumed that by retirement all workers had either been able to lay aside a good sum for the years ahead, or had an accommodating family that would provide for their later years. But over the years the administrators of the program and the politicians lost sight of this fact and somehow the program has become one to provide for the almost complete support of retirees. You could sum up what has happened to the program in two words [illegible]ver had heard of 10 years ago: indexing and entitlements."

Consider another m[illegible]dividuals believe they will never recoup what they have paid into the social [illegible] system. If an individual retired January 1, 1982 and paid the maximum in [illegible] taxes from when the system first began collecting taxes back in 1937, he [illegible] paid in $14,766; this figure would have been matched by his employe[illegible] not include interest calculations. In just 21 months, this person wou[illegible] everything which had been contributed. Assume he was married with a [illegible] age 65, who did not contribute to the system. Their combined benefits would enable them to recover what had been paid in over the last 45 years in just [illegible] months—and these individuals would continue to receive payments indexed upward annually to 100 percent of the CPI. This type of return on social security contributions cannot go on indefinitely, even if the government wanted it to. Under current law, the Social Security system will be unable to maintain current benefit levels without taxing present and future workers into oblivion.

Since 1960, total social security benefits have grown 3.0 times faster than the Gross National Product (GNP). Social security is, of course, a pay-as-you-go program with benefits financed directly from the current tax on payrolls. Because payrolls cannot grow faster than the general economy for any appreciable period, benefits can grow ahead of the economy only if the effective rate of payroll taxes continually rises. This is exactly what has been happening in recent years. Since 1960, payroll taxes have climbed from 2.3 percent of the GNP to 5.9 percent. But simple arithmetic tells you that as payroll rates rise, those paying the taxes must suffer a progressive erosion in the ratio of their ultimate benefits to the taxes they will have paid into the system. Thus, their Social Security "investment" must show an ever-decreasing return. Not only will workers receive less in benefits when they retire, increased payroll taxes will limit their disposable income today. Few of today's workers see their wages raised 100 percent of the CPI, as social security recipients find their benefits raised. And the CPI, as many will agree, is not an accurate measure of inflation and its impact on the consumer. The 1977 Social Security Amendments should have made it clear that increased payroll taxes, without other major structural reform, is not enough to bring the social security system into long-range fiscal solvency.

Regarding the proposal to gradually raise the retirement age, I would like to preface my comments by simply saying that such a proposal would have to be phased in gradually so as not to disrupt or hamper those who have carefully planned and anticipated retirement at the age of 65. Two generations ago, the remaining life of a 65 year old man was an average of 12 years, and those years were not always spent in the best of health. Today at 65, thanks to a higher living standard and improved health care, one can expect another 16.6 years of life, and there is every reason to believe that this trend will continue. Studies seem to indicate that responsible work, at a reasonable pace, improves the physical and mental health of most of the elderly. But instead of raising the retirement age from 65 to 66, as has been proposed, why not raise this age to 68 very gradually over the next three decades?

In discussing the retirement age, Frank Bane said: "I made a mistake. If I had it to do over again, I would make several changes. I believed old man Solomon. He didn't know what he was talking about. Three score years and 10? He was way off base. I would change the age situation. Instead of three score years and 10, I would make it four score and 10. But I would do it very, very gradually. I would emphasize as I do all the time . . . that no one under any conceivable circumstances is going to lose a dime of what they are now, underscore now, getting."

At the present time, a disincentive to work exists in the social security system; retirees' benefits are cut by 50 cents for each dollar earned over $6,000. It is clear that any coherent program of entitlements reform for the aged must make it financially attractive for people over 65 to continue working.

Many people in our nation, and particularly in the younger generations, tend to perceive the elderly as far sicker and poorer, and far more disabled and homeless than they really are. A Harris survey done in 1981 made some interesting discoveries. Seventeen percent of the elderly regarded low income as a serious problem for them personally, while 58 percent of the elderly thought it was hardly any problem at all. In mean per capita income, older people are doing better than people under 65. Retired people typically have lower expenses than working people, and two thirds of the elderly own homes without mortgages. The real average income of the elderly has been rising, not falling. During the 1970's, it rose more than that of the general population. Fortunately, the percentage of elderly people below the poverty line has fallen from 35.2 percent to 15.7 percent during the last 20 years.

For the elderly with low incomes, social security is essential for maintaining a minimal standard of living, and there is no denying the fact that poverty among some of the aged is a serious problem. We must address this problem. Yet consider how Social Security benefits are distributed among today's elderly. According to the 1980 census, those below the poverty line (today, about $10,000 for a family of four) received only 9 percent of total social security benefits. Approximatley another 30 percent of these benefits go to those whose earnings range from the poverty line to twice the poverty line. By contrast, the elderly with incomes in the top 20 percent (family income over $30,000) received about 30 percent of total benefit payments. In fact, the total Social Security outlays for such relatively well-off families is more than the combined outlays of the major need-related welfare programs—food stamps, Aid to Families with Dependent Children (AFDC), Medicaid, and Supplemental Security Income (SSI). Again, some type of structural reform is in order.

Among the many proposals for social security reform, I would offer the following for serious consideration by the Social Security Subcommittee:

(1) Freeze cost of living adjustments (COLA's) for at least 1 year.

(2) Limit future COLAS after the freeze is over. COLA's could be set by taking CPI minus 3 percent, or wage increases minus 1.5 percent.

(3) Tax those benefits that are received in excess of contributions, which is currently done for every other retirement program (whether public or private). This would help to reduce the imbalance in the returns on contributions between those who are not retired, and those who will retire in the future. This proposal would not have any perceptible effect on the aged who are in serious need; their incomes are not high enough to be subject to income taxes.

(4) Selectively lower initial benefits for retired persons. This could be done by bringing benefit levels more in line with actual contributions.

(5) Raise the retirement age by at least 3 years, to age 68, on a gradual basis (one month per year for the next 36 years). Even with eligibility shifted to age 68, the average retired person would enjoy benefits for a longer period than did his parents or grandparents. For the poorest elderly, who often cannot find work and are unskilled, I would suggest lowering their eligibility for SSI, and perhaps increasing SSI benefit levels for this group.

(6) Once the above reforms have been made, bring civil service workers into the social security system. This is a short-range solution to the problem and I advocate

it on the basis of equity more than anything else. There is a movement afoot to make this one of the first reforms of the social security system, and I am not personally ready to join those ranks. We cannot pull the rug out from under those who have planned their retirements, and in order to prevent an exodus of capable workers from the federal work force, we will need to design a program that will attract and retain able employees in the federal work force. One additional note: today, the retirement system for federal employees is 2.5 to 3 times more generous than are pensions for private workers, and this entire pension system needs to be restructured.

(7) The Medicare program must be reformed. Even if all of the above proposals are enacted, there will still be a deficit in the year 2025, largely from the Hospital Insurance (HI) trust fund, equivalent to 8.2 percent of taxable payroll. The Medicare program is the fastest growing part of the social security system. Between 1972 and 1982, outlays for the HI trust fund increased more than fivefold, from $6.5 billion to $35.7 billion—2.8 times as fast as GNP; disbursements per beneficiary have increased 300 percent since 1972. Expenditures in the future are expected to increase between 3 and 4 times as fast as the GNP. The entire Medicare program needs comprehensive reorganization, with new incentives to reduce costs. Frankly, thought and consideration should be given to requiring that those who can afford medical care be required to pay for such care.

Let me share with you the text of a letter I received from one of my elderly constituents last November: "I am a Social Security recipient. My monthly social security check is slightly less than $320.00—It is certainly not easy to live on that amount. I am concerned about the social security system and would gladly sacrifice the new dollars it would take to put social security back on a sound basis. Why should we keep raising social security taxes more and making it harder for young families to live. Why should they do all the sacrificing? There are many more citizens that feel as I do."

This letter is by no means typical of how social security recipients feel about social security reform, but it is representative of the concern and frustration many Americans feel regarding the uncertainty of the program. It is also indicative of the reasonable attitude an elderly person can have when they are fully informed of the facts.

I have encountered concern, bewilderment, and hostility—until I take the time to explain the problems, in a briefer fashion that I have just done, I might add—when addressing constituent inquiries regarding social security reform. It has been my experience that our senior citizens are almost always reasonable and understanding when confronted with the facts. Our society needs and wants protection from changes in income resulting from retirement, serious health problems, and debilitating proverty. The social security system has provided this floor of protection, and more, but if it is going to be there for future generations, reforms must be made.

In closing, I would like to once again commend the National Commission on Social Security Reform for beginning the arduous and necessary task of addressing the social security crisis. For the 32.7 percent of the households in the 17th District of Texas and those throughout the Nation who rely on social security benefits, and for the many households which hope to receive social security benefits one day, I urge the subcommittee not to postpone making those painful but necessary structural reforms. I implore you not to succumb to the continued politicizing of this issue by those who for one reason or another choose not to recognize the seriousness and reality of this crisis. Our Nation's elderly have worked hard to make this Nation what it is today, and I do not believe that they want to leave a legacy of excessive taxation and debt to their grandchildren and great grandchildren; to do so is nothing less than a cruel hoax. We, as their elected representatives, must address this issue in the most straightforward and equitable manner possible, devoid of partisan politics. I pledge my assistance and support toward any solutions which responsibly and reasonably address social security reform.

Chairman PICKLE. Thank you. You have given us a strong statement and a thoughtful statement, and one which takes courage to present. I am confident this committee will pass an appropriate bill and that we will do it on a long-range basis and we will do it in as bipartisan a basis as possible. I think there is a good spirit among the members of the subcommittee and the full committee to advance the bill on a unified basis.

The Commission report is just a beginning. We need to make some of the very changes you have recommended, and whether we will be able to do all of them on this bill is something we will have to see, but I commend you for making this statement. You can be a very helpful force in getting us to advance the bill, and I hope we can do it in a manner that will please you and your friends.

Mr. Anthony.

Mr. ANTHONY. I would like to welcome my friend before the committee. I think the record should be clear at this point that he did not just come on board studying and talking about social security when the Commission was appointed. He actually put together a very detailed study of the social security system and was nice enough to send it to a lot of Members of Congress. I was the recipient of one of those reports that he put together. It contained a lot of good, factual information that gave you a good basis upon which to start formulating some forward positions on trying to solve the short-term as well as the long-term problem.

I would like to be more blunt than Jake was. If we put a package together that does not contain everything that you want personally, but you consider to be a reasonable compromise and consensus, do you think you can get the boll weevils to support it?

Mr. STENHOLM. I cannot speak for anyone but Charlie Stenholm. I have problems with the Commission package because of its overemphasis on future tax increases and underemphasis on making those structural decisions that I think need to be made. It is certainly not my intent to disrupt the social security program, which will happen if this body does not address the serious problems before us.

It would be my intent to be a positive force on behalf of the 32.7 percent of households in my district. I can count as far as politically, but—the message I am hearing, Mr. Anthony, from so many people from this Congress are not representing the senior citizens of the 17th District in their concern, and the Commission report does not do that. But it would be my intent to be helpful where we can, and I believe strongly in what I have told you this morning, that that is the more proper direction that we should be moving at this time, to stop politicizing the issue and to start dealing with the world as it is and not as we wish it were.

Mr. ANTHONY. Thank you.

Mr. Jacobs.

Mr. JACOBS. I thank the gentleman. I am sure he is competent to speak for more people than himself, having been elected to Congress.

Mr. CRANE. There is an old saying that the difference between the politician and a statesman is that a politician worries about the next election and the statesman worries about the next generation. I think that our good friend and colleague from Texas falls into that latter category in his assessment of the problems of the social security program. It was a most statesmanlike and courageous analysis of some of the fundamental structural problems we have and the problems that are going to haunt oncoming generations, and being older than the gentleman, I can assure you that at this station in life you start worrying more about what you leave to your kids than what you yourself will get. I think that is true of the existing seniors. They are one of the most unselfish and I think humane groups in our society that you can find, and you can appeal to them to be sure and generate their fears by materialist considerations, but I know of no group that is more conscious of what they are leaving for groups coming after them. I think your statement is most consistent with those kinds of concerns, because I have found them among seniors in my district.

Let me ask you a question about your proposal to raise the age limit, which I favor. When would you favor initiating that? At the time of the inception of the program my understanding is the average life span in this country was about 60, and they said 65 is the age of eligibility to receive benefits. We are well beyond that, and my feeling is start as early as 1984, 1985 to advance it a month a year. Under the Commission's proposals they are talking about 2015, and I have seen studies that the average life span by 2015 could be pushing 90. When do you recommend we start the increase on a monthly basis?

Mr. STENHOLM. If it be administratively possible, I would recommend January 1, 1984. I have answered your question in front of every senior citizens group in my district in advancing the ideas that I put forth to this committee and I find no substantial problem. Once they understand that it is 1 month a year, there is no substantial problem and when we see what this does to the solvency of the trust fund, it makes so much more sense than initiating some of the tax proposals the Commission has proposed. Backdoor general revenue funding, for example, which is coming now, is going to begin destroying the very trust fund that I believe needs to be reserved.

Mr. CRANE. The early retirement and the cost that that represents to the trust fund concerns me. Would the gentleman favor the possibility of advancing early retirement at the same time a month a year and then continuing it for 3 years beyond, when you reach the age of 68 for retirement and ultimately phase out the concept of early retirement altogether?

Mr. STENHOLM. If we couple that with a sound analysis of the needs of those who for health reasons or lack of ability to perform in the job market of the 1980's cannot help themselves—if we attach a structural reform of an overall welfare nature of our programs to recognize there are some people that need to be helped and that do need to retire maybe earlier than 62, then certainly I think you need to apply the same rules straight across the board.

Mr. CRANE. I thank the gentleman for his courageous testimony.

Mr. ANTHONY. Mr. Thomas.

Mr. THOMAS. I want to thank the gentleman from Texas with whom I worked for some years on the Agriculture Committee. He has provided us with commonsense but not without an indepth and intellectual base to it. He has addressed the problem in a realistic light based on those people and the circumstances they find themselves under.

We have had seven witnesses already this morning. You are the first to even suggest the idea of advancing the age, yet all the studies that I have seen show that by the time the Commission's suggested "66 year old" program goes into effect, there will be more than a seven year windfall of working years versus leisure years at the time that it goes into effect in 2015.

I asked Mr. Greenspan the other day why they settled on 66. He said the answer was simple—they were looking for 0.58 percent of payroll. They started with the idea of finding the money and they didn't have to advance it beyond 66 to find the money. They were looking for the equitable argument on those people who today are worried about whether they are going to have social security.

They weren't looking at the windfall benefits through the cost of living indexing that current and future retirees will get, and they weren't looking at the windfall of leisure years.

With all the warnings that we have had about the Presidential Commission's package and the fragility of the package and that we cannot open it up, what is your reaction to the idea that we accept the package on the short term through 1990, but certainly no later than that time do we put into effect the phasing in of age, so that you have a 68 retirement age at about the year 2026? Is that a minimally adequate package? Is that moving substantially in the direction that you think is reasonable?

Mr. STENHOLM. Yes; I think that makes very good commonsense and is an area that I think you ought to be moving toward and that I would be supportive of, going back to Mr. Anthony's question, also.

Mr. THOMAS. Thank you, Mr. Chairman.

Mr. ANTHONY. Mr. Frenzel.

Mr. FRENZEL. Charlie, you are courageous and you have good sense. It is obvious that you are never going to get ahead in the Congress.

Mr. STENHOLM. I am not quite that pessimistic, Mr. Chairman. I guess the farmer in me comes out about this time and somehow we are going to plant and plow this under the most adverse conditions and in spite of too much rain or not enough rain, too much hail or too many bugs or whatever it is, we will work it out, and I believe we are.

One last thought, Mr. Chairman. Will Rogers was once quoted as saying, "It ain't people's ignorance that bothers me so much, it is them knowing so much that ain't so that is the problem."

I think in the area in which this committee has the tremendous challenge that you have, those words are well spoken; that we have to look at the world as it is.

Mr. ANTHONY. We thank you for appearing. You have made a valuable contribution. You and I both know from fighting the problems for the farmer, that if we can fight that problem, it makes this look almost inconsequential. Mr. Chairman?

Chairman PICKLE. The Chair recognizes our colleague, Mr. Hal Daub, who has been very active in trying to help us form a coalition or a solution to the social security problem, and we have enjoyed working with you.

STATEMENT OF HON. HAL DAUB, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Mr. DAUB. Thank you very much, Mr. Chairman. I want to thank my good friend Mary Rose Oakar, too, for yielding at this time on a schedule which takes me to National Airport soon, so I will be brief. My good friend, Mr. Whitehurst, I believe testified this morning with respect to an idea concerning nonresident aliens. I would like to be brief.

Mr. Chairman, the social security system faces a severe financial crisis if Congress does not take immediate action. It is extremely unfortunate that the financial situation of the system was allowed to deteriorate to such an extent before reform was seriously contemplated. It is my hope that all members will review and consider carefully all alternatives for alleviating the financial difficulties of the social security system with an eye toward the development of a bipartisan comprehensive reform package that can be agreed upon by both Houses of Congress and the President.

I have reintroduced legislation to limit the amount of social security benefits which are paid to nonresident aliens. I believe that this measure should be included in any comprehensive reform package on social security that is offered.

This bill offers an opportunity to adopt a simple, but important, reform which will provide savings which can be redirected to other aspects of the social security program to help insure the financial solvency of the system.

But just as important, this reform will send a reassuring message to Americans that while we are asking them to sacrifice for the secured future of social security by increasing taxes and delaying cost-of-living increases, Congress is serious about tightening up those aspects of the program which are fraught with abuse.

At the present time we are paying about $1 billion each year in social security benefits to people who are living outside of the United States. In fact, the figure is about 313,000 persons.

At the same time, only $300 million of retirement benefits are received in the United States from outside. This is a hard currency transfer of $700 million out of the United States. This is, I guess, the point that I want to summarize and emphasize with this subcommittee. I want you to hear me on this, it is a point not discussed much at all.

A Public Law 480 grain arrangement or an Eximbank transaction indirectly benefits American business and employs resident workers—but a hard currency transfer such as occurs when we mail an old age and survivors benefit check to a nonresident is a drain from our workers trust fund directly out of our economy, never to return even indirectly, to buy 1 gallon of gas or create one job baking bread. Those trust fund dollars are gone forever. There is no economic recycling advantage from those saved retirement dollars respent in our economy.

Seventy percent of nonresident recipients are aliens. These people have all previously worked in the United States and have paid into the social security system. Some of these recipients have paid only very small amounts into social security. Most nonresident alien recipients receive benefits many times greater than what they contributed to the social security system or was contributed on their behalf while they were here.

The GAO has reported cases in which thousands of dollars in benefits have been paid to people who have made very small contributions. Social Security Administration statistics show that among the beneficiary population as a whole, the proportion of retired or disabled workers is about 62 percent and the proportion of dependents and survivors is about 38 percent. Proportions for foreign beneficiaries, however, run 48 percent for retired or disabled recipients to 52 percent for dependents and survivors.

In some cases, the proportion of dependents and survivors is even higher. In the Philippines, for example, the proportion of dependents and surivors is 71 percent. In Mexico, the proportion is 73 percent. In these cases, American social security dollars go not to retired workers themselves, but to dependents and survivors who may never even have visited this country. This disproportionate number of dependents and survivors among nonresident aliens is indicative of the magnitude of inequity and abuse which pervades this portion of the social security program.

I don't believe we can afford to drain off social security funds and U.S. hard currency to support aliens living outside our country. The purpose of social security is to provide a retirement benefit to assure that the elderly who live in our country can live with dignity. Yet many foreigners, because of the low standard of living in their mother country, can live in comparative luxury by going home and collecting social security benefits.

The bill I have introduced, H.R. 950, already has 97 cosponsors from both sides of the aisle. Senator Lugar is reintroducing this bill in the Senate.

The major elements of the bill I have reintroduced are: One, give back only the amount a nonresident alien has paid into social security and no more. Two, assure that only those aliens admitted as lawful residents to the United States would be eligible for benefits. Three, to curb the abuses occurring from paper adoptions and May-December marriages, nonretirement benefits would be paid to those surviving dependents only if the relationship existed prior to the insured's 50th birthday. Four, all U.S. citizens and nationals at home and abroad would not be affected by this bill.

Such a measure will, according to GAO, save upwards of $700 million a year.

This reform would not affect one single American citizen, either here or abroad. It would not affect any alien currently residing in the United States or in any of its territories. It would not affect any nonresident alien currently receiving benefits. It would not abrogate or in any way alter any existing or future treaties or totalization agreements which provide for reciprocity of social security or retirement programs in other countries.

My intent in sponsoring this measure is to give a clear signal to the American people for whom the social security system was created. I believe that most American citizens would be amazed to learn that $750 million is paid each year to nonresident aliens, a majority of whom have never even worked in the United States.

Mr. Chairman, the Congress faces many difficult questions involving reforms to insure the soundness of the social security system. We owe it to the American people to show that we intend to take care of those Americans who have contributed to social security over their working lifetimes. Social security was not created to be used as a worldwide pension system for noncitizens who no longer live in this country.

So I urge the committee to include this kind of language in the bipartisan measure that will comprehensively form our social security system.

Another bill I have introduced, H.R. 951, would prorate the benefit of the decedent during the month in which that person dies. It has strong bipartisan basis support now numbering some 60 Members of Congress and, indeed, my comment there would be that when a constituent in my district passed away at a couple of minutes before midnighit on the last day of the month, the wife who survived was required by law to give back the full month's check. It seems we ought to look at that and it is consistent with the bipartisan Commission's point number nine, which looks at the survivor, particularly older women, to do something to make their benefits fairer. This recommendation should be looked at with respect to point nine of the Commission's recommendations.

I thank you for your time and the effort you are making to try to work this thing out for the benefit of our country.

[Summary and additional prepared statement follows:]

STATEMENT OF HON. HAL DAUB, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

SUMMARY

I urge the Committee on Ways and Means to include in their comprehensive reform package a measure I have sponsored to limit social security benefits which are paid to non-resident aliens.

Presently, there are over 313,000 alien non-residents receiving social security checks. The estimated expenditure out of the social security trust fund is almost $80.5 million a month or nearly $1 billion annually. In addition, a hard currency transfer such as occurs when we mail an Old Age and Survivors Benefit check to a non-resident is a drain from our workers trust fund directly out of our economy, never to return even indirectly.

I don't believe we can afford to drain off social security funds and United States hard currency to support aliens living outside our country. The purpose of Social Security is to provide a retirement benefit to assure that the elderly who live in our country can live with dignity. Yet many foreigners, because of the low standard of living in their mother country, can live in comparative luxury by going home and collecting Social Security benefits.

I believe the law needs to be changed to remove from eligibility those non-citizens who live and work in the United States temporarily and who then return to their homeland and receive social security benefits. Such a change will according to GAO, save upwards of $700 million a year. I would favor giving back what those non-resident aliens have paid into the program, but no more.

ADDITIONAL STATEMENT OF HON. HAL DAUB

Mr. Chairman: As the committee considers changes in social security financing it is my hope that it will as well consider a problem that affects millions of recipents that this Congress could remedy without great difficulty.

I urge the committee to include in its package as well a measure I have sponsored which would change the current procedure which does not provide any benefits for the month in which the beneficiary dies. Under my legislation the survivors would receive a share of the deceased recipient's monthly benefits prorated to the number of full days in the month that the beneficiary lived.

Every day in this country hardships occur because of the current law. Many of you may recall the incident last summer in my home State of Nebraska where a 72 year-old man died at 11:23 P.M. on May 31. Because he died 37 minutes too soon, the man's widow was asked to return her husband's May social security benefit of $358.60.

This legislation would alleviate the unfair burden on survivors who have to deal with the expenses incurred by the beneficiary without the expected income which is lost as a result of death.

Mr. Chairman, I hope the committee would see the overriding commonsense that is involved in this proposal. We are not asking for new benefits, or increased benefits, but simply an opportunity to restore to the survivors the benefits that would be paid would only the deceased had had the good fortune to die at a more convenient time.

For older people who are enduring the loss of a life's partner it is not too much to ask that they not have to endure an additional fiscal loss as well.

Chairman PICKLE. For your information, earlier this morning Congressman Whitehurst testified on some of these same points, and we told him we recognize that this is a very vexing problem. We don't want to hurt the earned right of American citizens and your bill would protect that.

We are concerned about the survivors or dependents, and marriages and things that are taking place and we intend to hold hearings on this question, either in connection with this particular legislation or immediately afterward. We don't have enough specific information yet from GAO to say these are the facts, but we are asking for them.

We have a preliminary study that GAO made. We are very mindful of the problem that you have raised and you have rendered us a real service.

Mr. DAUB. Not only is the GAO report, I know, being undertaken, but we have a set of reports that we will make available to the committee, one of which, I think, is important for you to have. It views this particular bill that we have authorized as a constitutional method without the problem of abrogating treaties and totalization agreements, which has been a sticking point on this kind of legislation in the past. We will get that to your subcommittee.

Chairman PICKLE. Thank you.

Mr. Anthony? Mr. Thomas? Mr. Crane? Mr. Jacobs?

Mr. JACOBS. One question, Mr. Chairman. I think the gentleman has made a very excellent presentation. It has more than a ring of logic to it, especially when he said that we owe more to Americans than we do to noncitizens. Does the gentleman apply that also to, say, military aid to other countries, putting that ahead of solving the social security problem?

Mr. DAUB. It is important to recognize from an economic point of view that we really have to start looking at our own backyard a little more. The logic that I would offer is this, included in my logic would be military aid and foreign assistance for a reason. The healthier the country is economically, so are the rest of the peoples and their nations, because they depend on how healthy we are.

When we are weak, their economies are weaker. The same is true of interalliances and defense. When we are stronger, they are stronger. It is the same kind of relationship. You look at what LBJ did in the Executive order on the trust fund in 1968, using essentially the balance to indirectly collateralize the financing of the Vietnam war buildup to make the red ink look a little less. The same independence of this fund is in jeopardy if we don't use that logic on military and foreign aid appropriations as well.

Mr. JACOBS. There is a relationship and I thank the gentleman for his statement and say "amen."

Mr. DAUB. Thank you very much.

Chairman PICKLE. Now, the Chair is pleased to welcome our colleague, Mary Rose Oakar of Ohio, who is chairman of the Subcommittee on Compensation and Employee Benefits, on the Post Office and Civil Service Committee and active in matters affecting social security. We are pleased to have you here.

STATEMENT OF HON. MARY ROSE OAKAR, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OHIO

Ms. OAKAR. Thank you, Mr. Chairman, and members of the subcommittee, and thank you for the opportunity to testify before you today.

Mr. Chairman, first of all, I do want to commend you for your very, very fine work in the last Congress concerning the pension offset provision. You were extraordinarily fair, and I know many people who were affected by that in a very negative way are very grateful for your efforts and other efforts of this committee.

Mr. Chairman, I would like to commend publicly the National Commission on Social Security Reform members for their good faith effort in proposing a good outline from which we as Members of Congress can formulate corrective legislation, and I want to begin my testimony by telling you some of the things I think are fine about the recommendations.

One area of the Commission's report that I was very pleased with deals with the inequities that several groups of women currently face. I hope that in your comprehensive legislation, those recommendations will be included.

They include the recommendation regarding divorced survivors, disabled widows or widowers, disabled divorced spouses who would be able to receive benefits regardless of remarriage, the wage indexing of benefits for deferred survivor benefits in order to increase survivor benefits when wages rise faster than prices.

Divorced spouses under the Commission's proposal also would be entitled to receive social security benefits upon reaching retirement age, not waiting for the exspouse to be eligible. That has been a difficulty for so many people, particularly women, across the country, in the past.

The Commission also recommended that disabled widows and widowers claiming benefits at age 50 to 59 receive 71.5 percent of the deceased worker's PIA rather than the current 50 percent. I believe this is a very important and constructive approach to removing some of the inequities.

In addition, the Commission considered three very important recommendations which I also have decided to highlight. Several days ago, I introduced legislation which addresses the Commission's proposal in this regard.

First and foremost is the recommendation removing the trust fund from the unified budget. I hope that recommendation does not get lost in the shuffle, because I really believe that we need to do that in order to be thoroughly objective about the system. We need to do that so that percentages of what we spend are not manipulated and that in a kind of quasi-way we do not use people's benefits to offset this astronomical deficit that we have. I hope you include this recommendation in your legislation.

Another outstanding recommendation would permit outside members—who are not related in any way to any administration—

to sit on the board of trustees. I think that provides the necessary objectivity that on occasion is so important.

In addition, I also want to commend the Commission for recommending that the Social Security Administration be removed from the Department of Health and Human Services and make it an independent agency.

These three items in my judgment, would depoliticize and defuse some of the problems that we have encountered in the past.

As you know, Mr. Chairman, I have for several years chaired a task force on social security and women under the auspices of the Aging Committee. After many, many hearings and expert witnesses and proposed legislation I honestly believe that ideally we should deal with correcting all the inequities toward women comprehensively. I will not go through this in my testimony, but would like to ask that my actual testimony be submitted for the record, because the Commission, while it dealt with several issues, did not address inequitable treatment toward women in the social security system comprehensively.

I want to address two areas in the Commission's report that do concern me greatly. The first is the 6-month delay in the cost-of-living adjustment. I understand from reading the additional testimony of several Commissioners that this was for them a difficult proposal upon which to agree because of the adverse effects a benefit reduction of that magnitude would have on the elderly this year. Thousands of elderly recipients rely heavily if not solely on their monthly social security checks. It is estimated that a retired couple whose benefit is $700 would lose about $222 with the 6-month delay. The average widow, and most of the women collecting happen to be widows, would lose $120 or nearly 30 percent of her total monthly benefit, and then of course this would have a severe impact on the typical disabled worker with a family who would receive about a $270 loss.

In 1980, 3.7 million or 14 percent of those receiving social security were below the poverty level, while another 4 million or 15 percent were just above the poverty level. In other words, the average retiree with an income of less than $8,000 was too rich to receive an alternative source of income. The typical female retiree has an income, an annual income of $4,700, which is only $398 annually above the poverty level, and nearly 74 percent of the elderly poor are older women, as this committee I am sure knows, and most of those women are between the ages of 70 and 90.

Now, gentlemen, $1,200 over a 5-year period or about $220 at an annual level I should say, may not be much to us, but if you are living on that social security check, that is for most women about $250, it is a lot of money that might make the difference between whether you have meat once a week or not. Half of the social security recipients are at or near the poverty level and are eligible for SSI. The $30 increase in income disregard proposed by the administration will help low-income recipients if the COLA delay is implemented. The other half—those not receiving SSI—literally fall between the cracks. Most elderly people if they are not poverty level are near poverty level, and that is a fact. It may not be true in an individual Member's district, but when you take the older Americans and view them nationally, statistics show they are poverty level or near poverty level. So these people are either regarded in quotation marks as too financially sound to receive SSI, or the stigma of being on welfare intimidates them from applying. We know that most elderly people do not take advantage of applying for SSI who are eligible.

As I suggested, a 6-month delay for some older people will be catastrophic coupled with the other budget cuts. I do not think we can isolate this issue from the overall attitude of the budget priorities. If you take a look at the President's budget proposal you will see that once again there are cuts in the nutrition programs for the elderly. We are going to see a real reduction in the number of SSI recipients because of the more stringent rules, no increase in work programs for the low-income elderly. I charge this committee to do what I hope all of us will do, and that is to take a look at all the implications of the President's budget along with your proposals to reform social security. I believe that 6-month delay would have a very severe impact on many, many older people, and I would ask the committee to look at other alternatives.

I would like to also submit for the record, with the chairman's permission, some other ideas for achieving some of the moneys that would be necessary if we do not delay the COLA for 6 months. For example, if you look at the Social Security Administration and what it costs to run that over a 5-year period, you would see that almost $18 billion could be saved if the administrative costs were paid out of general revenues. This amount is nearly the amount of money that could be saved by delaying, the COLA. Just decreasing the number of unemployed in our country would add a tremendous amount of revenue to the OASDI trust fund. So, if we went back to what unemployment was several years ago, to 7½, 8 percent, we could save about $9 billion, and that would be—that I should say could be placed into the trust fund. There are other areas that are being studied now relative to the efficient use of the computer and raising the wage base, which I will submit in detail with the chairman's permission to this committee.

Mr. Chairman, one other recommendation of the Commission that does trouble me is the proposal to extend the social security tax to all Federal employees as of January 1, 1984. Again I want this committee to take a look at the budget proposals as it relates to Federal employees and view the entire situation comprehensively. I know, because I chair the subcommittee on Compensation and Employee Benefits, how strongly Federal workers feel about the issue. They oppose it because they view it as another way of cutting their benefits and ultimately destroying the integrity of their civil service retirement trust fund.

If you look at the budget proposals, submitted by this administration you will see that Federal workers and retirees already lost over $14 billion in pay and benefits in the last 3 fiscal years. The President's fiscal year 1984 budget contains more cuts, totaling over $20 billion in the next 3 fiscal years. Included in these proposals is a pay freeze, a COLA freeze for 1984, and a substantial assault—and that is the only word I can use for it—on their retirement program. Presently, Federal workers are 20 percent behind the private sector in pay. They are significantly behind—and we have had reports on this from objective consultants—in health benefits. All they have left is the hope of a decent retirement program. I am very aware that there are some strong arguments on both sides of the issue on whether to extend the tax to new Federal workers. There are newspaper reports both pro and con.

Just today the Washington Post said it ought to be done. Only last week the Wall Street Journal said it would be a mistake to cover new Federal workers under social security, as that would add $1 trillion to the unfunded liability of the social security trust fund. In 1979 the Deputy Social Security Commissioner was opposed to universal coverage because he said it would have a negative impact on the trust fund and the Federal retiree civil service trust fund. Today our Commissioner is for it.

I know the Commission was unable to spend as much time as they would have liked analyzing the impact on the civil service retirement trust fund of this proposal. No one is sure what will happen to the civil service retirement system if you suddenly take 450,000 workers out of the system. We do not want to do anything to jeopardize the benefits of both systems. I believe in both systems, and I do think that all retirees whether under the civil service retirement program or social security program have a right to their benefits.

So far attempts to get reliable de facto data to make an informed judgment on this issue have been next to impossible. There is more heat than light. I would like to recommend something that I think would be a viable compromise. If you will not completely eliminate the proposal, would you consider delaying that aspect of the Commission's recommendation until January 1, 1985, so that the actuaries of both the social security and civil service retirement system and the appropriate committees can study the impact that this will have on both systems? Then I would really go along with whatever the results would be of that study.

As you know, this proposal raises less than $1 billion in 1984 if you put the new Federal retirees into the system. I do not think a 1-year delay would upset the delicate balance of the package that the Commission has proposed. It would, however, greatly relieve the anxiety of the Federal work force, who have been so dumped on in this budget and in the past, and allow us to make this decision in a more informed, prudent manner.

Now, politically, I really have to say that if you asked the average American if they thought that putting Federal employees in the social security system would help the social security system, the average person says yes. What I am suggesting to this committee is that we have a responsibility not to do the political thing all the time, but to take a look at the issue from a different perspective. Both trust funds are too important to have negative long-term impacts, and I do not really believe that there has been a comprehensive study done. If the study indicates that it is positive, then we go ahead with the Commission's recommendation; if it indicates that it is negative, that we not do that. I think that is a really fair compromise. Again, I do not think it would affect the proposal substantially for 1 year.

In summation, Mr. Chairman, I pledge to work with you in whatever capacity you would like to implement a fair, viable proposal, and I would just tell you that the members of our staff and of my subcommittee are at your disposal for any kinds of information that we can provide on these and other issues. Again, I thank you for allowing me to appear before this very fine committee.

Chairman **PICKLE**. Well, we thank you, Congresswoman Oakar.

You have given a very substantive statement with a lot of very valuable points to it.

In my judgment, the recommendations of the Commission with respect to women's benefits will be kept, and they need to be. We must pursue additional relief in the area of earnings sharing. We all recognize that. It is difficult to do that. It is a point we will look into further. I am pleased to note the other recommendations you made, and I particularly thank you for your statement about working in the offset area. The gentlelady from Ohio has been most persistent in finding an answer to this. It was through your efforts that we really tried to find a solution to this.

I am very mindful of the recommendation you made, that we should give some consideration to delay extending coverage of new hires for 1 year. We are not certain yet how much money we are talking about. The fact that you would make that observation, and offer it as a consideration is something I think this subcommittee will look at. I don't know what direction we will go, but it is a very thoughtful and substantive recommendation, and I am glad that you made this suggestion to us.

We still keep the package together, and that is a possibility at least. It might delay it 1 year.

I thank you for your comments and for your help in working with this committee over the years.

Mr. Crane.

Mr. **CRANE**. No questions.

Mr. **PICKLE**. Mr. Jacobs.

Mr. **JACOBS**. What about the raising of the retirement age for the full benefit? Some people are calling it the age limit. I assume that means you have to die at that age, talking about the age of eligibility.

Ms. **OAKAR**. I am opposed to that, Congressman. As you may or may not know, I honestly believe that a person ought to be able to look forward to collecting a benefit, if they have paid into a system. For you men, the median age is 68 now, and I don't know that you can project how much longer people will be living in the future with the threat of nuclear war around us. God forbid that we will have to face such a fear.

Surely, we ought to be able to give people a benefit in their later years that they can collect. If you raise the retirement age to 68, that would mean in today's terms that the average male wouldn't collect anything. I am opposed to that.

Mr. **JACOBS**. I wonder how many people know where age 65 came from in the first place. We say automobile engines are in the front of the car because that is where the horses were with the buggies.

As I understand it, the first person to set the retirement benefit age at 65 was Bismarck in Germany. They had a very good idea there because nobody lived to be 65 in those days, and I think that is what gave birth to the familiar expression, "Thanks for nothing." So I do think that has to be taken into account. I suppose somewhere down the line if people live to be 200 years old, some thought ought to be given to adjusting to those realities, just as we ought to adjust the realities of women in the work force now who were not as a percentage of that work force in 1939, but that ought to be taken into account.

Maybe for the average man who lives to the age of 68, he will get one good meal before he dies, something like that.

It required an awful lot of courage for Bismarck to set it at 65, knowing no one will live that long.

Thank you.

Chairman PICKLE. We thank you very much.

I thank you for appearing and thank you for your cooperation over the months.

Ms. OAKAR. Thank you, Mr. Chairman.

Chairman PICKLE. Now the Chair is going to call for a 30-second recess here while a picture is being made, and I will tell Mr. Tauke that you are next, and you can go ahead and take your seat here.

We are glad to have you here. I know you had to go to another meeting.

We appreciate hearing your testimony now.

STATEMENT OF HON. THOMAS J. TAUKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

Mr. TAUKE. Mr. Chairman, members of the committee, I know that you have copies of my testimony, and so I am not going to read it. I will leave that for your perusal.

I commend you for your patience sitting here listening to us when undoubtedly all of you know a great deal more about the social security system than most of your colleagues who are testifying.

I want to thank you for giving us the opportunity to express a few points of view. I have some concerns, as my testimony indicates, about the recommendations made by the Commission, but certainly the Commission's recommendations have to be a starting point for whatever we do.

When we look at these recommendations, though, it becomes clear they don't solve the whole problem confronting the social security system, and so we will have to do some other things. In addition, some of the recommendations are not as desirable as they could be.

One thing that I hope you will take a look at is a concept for changing the way in which we figure the cost-of-living adjustment.

The chart I have here before you explains the progressive COLA. The concept of the progressive COLA contrasts with what many people perceive to be a basically unfair approach to the determination of the current cost-of-living adjustment.

Last year, a couple that received a check of the maximum amount, $1,093, and a COLA of 7.4 percent, received an $81 monthly increase in benefits, while somebody receiving a check of $383, placing them at the poverty level, that individual received a monthly increase of $28.

The average American does not accept the notion that the cost of living went up $81 for one person while it went up $28 for another. I am not suggesting a flat amount for the cost-of-living adjustment, but we can change the way in which we figure it in order to save the system money, provide for equity in the system, and at the same time assure that those who are at poverty level and below are receiving the full cost-of-living adjustment.

Under my progressive COLA plan, as you can see from the chart that is before you, if individuals have a monthly check that is 40 percent of the maximum or less than 40 percent of the maximum—this year, roughly $450—those individuals would receive the full CPI adjustment when the COLA is given out each year.

Someone who had a check that is 70 percent of the maximum check would receive the full COLA on the first $450—roughly—of that check. But on the amount above $450, there would be a declining percentage of the CPI granted as a cost-of-living adjustment. The person who receives the maximum check would, on the last dollar of that check, receive 40 percent of the full COLA adjustment. Note, however, that this individual would receive 100 percent on the first dollar in that check.

It seems to me that this proposal is one that deserves consideration because it represents a way in which we would be able to insure the stability of the social security system in the years ahead and at the same time do what we are trying to do—insure that the people who are really dependent upon and really need social security are not asked to make additional sacrifices.

Mr. Chairman, that summarizes what I would like to say to you today, and I would be happy to answer any questions that you might have.

[The prepared statement follows:]

STATEMENT OF HON. THOMAS J. TAUKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF IOWA

A PROGRESSIVE COLA PLAN

Crises, whether at hand or envisioned, present us with difficult and often painful choices, but also with great opportunities. Mr. Chairman, Members of the Subcommittee, I appreciate the invitation to appear before you today and share in the opportunity we have to move beyond the weighing of specific recommendations and devise ways in which to make the Social Security System more equitable and secure for those who are now dependent upon it and for those who will depend upon it in the future.

I offer for your consideration today a plan I first proposed last year during our budget deliberations: a progressive cost-of-living adjustment, or a progressive COLA. The progressive COLA plan I will outline provides a much-needed reform in the present COLA system and, at the same time, significant short-and long-term savings in outlays.

I think we will all agree that the COLA was instituted to help beneficiaries cope with inflation. Yet the beneficiary most vulnerable to inflation in the cost of basic necessities—the individual or couple with a low monthly benefit forming all or the greatest part of income—receives far less of an increase from the COLA, in dollars, than those with higher monthly benefits. Last year, for example, a couple receiving the maximum monthly benefit of $1,093 [1] and a COLA of 7.4 percent realized approximately an $81.00 increase in monthly income; an individual with a monthly benefit of $383.00, [2] on the other hand, received a COLA of approximately $28.00. When we consider that succeeding COLAs will be figured as a percentage of the enhanced benefits, we realize that our present COLA provisions produce a dramatically widening gap in income favoring those less likely to be primarily dependent upon their Social Security benefit.

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[1] The maximum monthly benefit for a couple in 1982, assuming that both the worker and the spouse are 65 years of age and the spouse is not entitled to a benefit of his or her own.

[2] The approximate amount of a benefit which, if it were the sole source of income, would place an individual at the projected 1982 poverty level for the aged ($4,603 per year).

The progressive COLA improves the equity of the Social Security System and improves its financial soundness. Stated simply, I propose providing the full COLA on a base amount of the monthly Social Security benefit. That base would be 40 percent of the maximum monthly Social Security benefit check . . . or a yearly amount which would place the recipient slightly above the poverty line. As the size of the recipient's benefit increases beyond this base figure, the COLA on the amount of the monthly check in excess of the base would be a progressively lower percentage.

The chart before you presents the concept of the progressive COLA in terms of percentages. As the chart shows, 100 percent of the CPI-indexed COLA would be provided to individuals whose monthly benefit was equivalent to or lower than 40 percent of the maximum monthly benefit. A recipient whose monthly benefit exceeds the 40 percent of maximum base would receive 100 percent of the CPI-indexed COLA on the base amount, with a declining COLA percentage on the remaining amount of his or her monthly benefit.

The progressive COLA plan offers protection against inflation to all beneficiaries; unlike our present COLA provisions, however, it targets the greatest protection to those who most need it to meet the rising costs of basic necessities. The progressive COLA offers a means of limiting the spiraling growth in benefits which does not fall harshly on the shoulders of any recipient. It provides a more compassionate and equitable means of controlling the growth in benefit outlays and realizing significant savings than freezes or caps on the COLA. A freeze has the greatest adverse effect on the low-income recipient likely to be entirely dependent on his or her benefit.

The short- and long-term savings which would result from the implementation of the progressive COLA will allow us to rely less heavily than the Commission recommends on increasing taxes as a means of addressing the short-term and long-term crises in the Social Security System.

Let me offer a few observations on the Commission's report:

(1) I am seriously concerned about the effects of moving up the scheduled significant increases in payroll taxes on employers and employees as we are struggling to reduce unemployment and emerge from a recession. Similarly the recommended increase in the tax on the self-employed comes at a time when many small businesses are struggling to survive. Those small businesses are the major source of new jobs in our society. And while the Commission has sweetened the recommended increase in the tax on the self-employed with the provision of a tax credit, we must keep in mind that such credits are an indirect form of supplementing the Social Security System with general revenues at a time when we are facing severe deficit problems.

(2) I am also concerned about the impact on savings and investments of the recommended tax on half of the Social Security benefit of those with adjusted gross incomes of $20,000 for the individual and $25,000 for a joint return (excluding Social Security benefits). This tax will discourage savings and investments and will penalize those who have wisely prepared for their own retirement, often through sacrifices during their working years.

(3) I believe it is necessary to ensure that consideration of the proposal to include all new Federal workers in the social security system be accompanied by consideration of companion legislation providing for a supplementary federal retirement system. This companion legislation should keep funds flowing into the Federal retirement system to maintain benefits for those now covered by Federal retirement and to avoid saddling a future generation with an enormous unfunded liability.

(4) It is important, too, that the plan ultimately devised for stabilizing the social security system contain provisions for including all Members of Congress and the Vice President. The revenues realized from this would be small, but including ourselves in the system we are charged with overseeing would do much to restore the public's confidence in the viability of social security, in the plan devised for ensuring that viability, and in our willingness to invest in a secure retirement through social security.

In conclusion, I ask once again that you give every consideration to incorporating a progressive COLA in the plan devised for stabilizing the social security system and ensuring its long-term viability. It is a fair, compassionate, and effective means of addressing one of the root causes of the crises we face today and the problem we know will face a future generation and a future Congress unless we act now.

Thank you for your attention to this progressive COLA plan.

Chairman **Pickle**. You have given us a new idea here, at least something I don't think our committee has considered yet. I assume you are trying to get additional money to the lower recipient.

Mr. **Tauke**. I am not really trying to get additional money, but I am saying treat the recipient at the lower end essentially as we do today—let's not attempt to restrict the COLA for that individual. For somebody getting a monthly check of $450 or less, keep the COLA coming as it is now granted. For persons getting checks larger than that, give them the full COLA on the $450, but give them a declining percentage on amounts above that.

Chairman **Pickle**. Your base would be at 40.

Mr. **Tauke**. Forty percent of the maximum check, today running roughly $450. So, for example, the individual who received a check that is 70 percent of the maximum monthly check, would receive the full COLA percentage on the first $450 or so and a declining percentage on the amount above that.

Chairman **Pickle**. At least 40 percent?

Mr. **Tauke**. Right.

Chairman **Pickle**. Well, I am going to refer this to the subcommittee, and to the Social Security Administration.

Mr. **Tauke**. Maybe you can help us.

Chairman **Pickle**. I won't encourage you that it will be made part of the package at this point in view of the Commission's recommendation of their own. It is a novel thought, has equity to it.

I am glad to have your recommendations.

Mr. **Tauke**. Mr. Chairman, a lot of people whom I have talked to in my own district say, first of all, "I don't need that extra amount that I am receiving." Those are generally the people who have other substantial sources of income, because they have been high income throughout their lives, and they are receiving the biggest adjustment.

Others say it just isn't fair that one individual, as I mentioned, can get an $80 per month COLA adjustment and somebody else is coming in at $22 or $23.

Chairman **Pickle**. Mr. Crane.

Mr. **Crane**. Well, I think the gentleman has an interesting proposal before the committee, and one that addresses a concern we have heard from other witnesses who have testified, and that is, the people who are at the absolute bottom of the scale in terms of the benefits.

I am wondering, however, if this is not a move of softening the nexus between the worker making a contribution of *x* number of dollars and receiving benefits, and if it might not be more proper to address that very real problem with some kind of direct cash payment to those who are at the bottom end of the scale rather than altering the formula for paying benefits out?

Mr. **Tauke**. Those who are receiving social security benefits today are receiving more than they paid into the system on the average, and in effect, the Federal Government is providing an additional subsidy to every social security recipient. When we are giving out that kind of additional subsidized benefit, it seems to me that we can direct it toward those who need it the most.

In essence what is happening today is that the supplement is going to many individuals who really do not need the assistance. I am not saying that this is the only way to do it, but we have to figure out some method for insuring that we provide the necessary protection to those who need it, while at the same time, holding down the tremendous costs of these annual COLA increases.

Mr. CRANE. I thank the gentleman.

Chairman PICKLE. Mr. Tauke, you might give to the committee also a reproducton of that chart and add it to your testimony.

It is graphic and helps explain what you are getting at.

Mr. TAUKE. Will do, Mr. Chairman.

Mr. PICKLE. Mr. Jacobs.

Mr. JACOBS. Have you quantified the savings for the trust fund?

Mr. TAUKE. I was waiting for that question, because I have been trying to get some kind of figure.

Last year I had proposed something similar to this when we looked at the budget before Congress, and at that time applied it to all of the Federal retirement programs. At that time, a rough estimate of the savings given to us was $50 billion over 3 years.

I have been attempting to get a more precise estimate, one that would relate to the social security system alone, out of the Social Security Administration, and as soon as I do receive any information, I will forward it to the committee.

Mr. JACOBS. I was interested in your observation, you said a great number of people in the upper income brackets indicated this would not be a financial deprivation.

My father would say, some people would kick if they are hanging by a silk rope. I am not sure that would be a widely-held view.

I was wondering, would there come a time logically some time when there would be an even benefit right across-the-board? Would this eventually equalize the benefits?

Mr. TAUKE. No, it would not, because each individual who was receiving more today than someone else would receive a cost-of-living adjustment that would be more. For example, if someone has 68 percent of the maximum monthly check, he or she would receive a larger cost-of-living adjustment than someone who had 67 percent. Someone who had 68 percent of the maximum monthly check would receive all of what a person at 67 percent would receive, plus an additional increment on the remaining percent.

Everybody who receives more today would receive a slightly larger adjustment than someone else, but he or she would not have as big an increase from one year to the next as he or she does now. So you would not have a closing of the gap, if you will, but you would prevent the gap from widening as dramatically as it does now.

Mr. JACOBS. I think the suggestion is well worth taking under consideration. There would be some people who say, well, this was promised, et cetera.

The cost-of-living adjustments were not promised until 1972.

Mr. CRANE. One of the proposals made by the Commission was to tax the social security benefits for people who in effect are above the poverty, and I am wondering whether you would consider subsidy for that proposal in this proposal?

Mr. **Tauke.** I would leave it to the discretion of the subcommittee to determine what the substitution would be, but I think in a sense they are both directed toward the same kind of problem.

I have some difficulty with the taxation proposal, especially given the current economic conditions and our desire to encourage investment and savings.

It seems to me the taxation proposal says to the people, if you take care of yourself and plan for your future, then we are going to get you for it.

This proposal is fair and does not carry that threat with it.

Mr. **Jacobs.** The question of taxation of social security benefits, as well as the question of indexation of the benefits are questions or promises, if you wish to call them that, that were not made at the inception of the social security system. Moreover, desperate situations call for desparate measures. For example, I once signed a defense contract, I was a provider, and signed a defense contract with the U.S. Government to serve in the Marine Corps for 2 years and the Korean war broke out. I was 18 years old, and I had served 1 year of my reserve time, and called into active duty.

I figured well, that is all right, 1 year from now I will just miss going to combat and my contract will be up. Congress met one afternoon and with about 15 minutes discussion and without a recorded vote voted to abridge the obligation of contract, broke my contract, with what they employed as a euphemism as the convenience of Government.

It was a desperate situation calling for a desperate measure. By the time I got home I had a 10-percent disability from combat.

I say that in the record at this point as a reminder to all of us who say credit promises made by life or made by Government are not more sacred than the realities with which life has to deal.

It is the duty of civilization to make it as fair as possible, but possible is the key word, when we consider the different situations.

I thank the gentleman for his comments.

Mr. **Tauke.** First of all, this effort is not just designed to address the problem of the social security system. It is also designed to bring greater fairness and equity into the system.

I have talked about this for 1 year in my congressional district, and I have found tremendous support from those who would have to sacrifice as a result of this proposal, so I think it is acceptable to the public.

Mr. **Jacobs.** Well, my mother and father fall in that category, they agree with the folks you are talking about, but I don't know if they are in the majority.

Chairman **Pickle.** Again we thank you.

I don't think we are in a position to go into this question exhaustively at this time, but we will be looking at it later and passing your suggestion on to the committee.

One of the problems, this further accentuates the disparity spectrum, the higher paid.

The formula is already weighted now for the low-wage earner. He very definitely is given a break because we think he has less chance for other income. Now we are taxing the people with other income at a higher rate for the first time in the history of this program, and again, if we commence a progressive program, we are hitting them once again and weighting the formula even more to lower income.

I also got to consider the whole broad picture, and I am sure we will look at it at the appropriate time and we will be looking forward to having you back with us again.

Mr. **Tauke**. Those are valid observations, and I look foward to having an opportunity to continue to discuss this issue.

Chairman **Pickle**. Now, the Chair recognizes Congressman Wyden.

We welcome you.

You have been very active in advancing recommendations, and showing a very keen interest in this.

STATEMENT OF HON. RON WYDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. **Wyden**. I very much appreciate your allowing me to testify today.

I don't think there is any issue that is more critical in the 98th Congress than the issue of social security and the effort to develop ways to strengthen social security, which is really the most important domestic program that our Government has ever operated. It has to be our foremost priority.

All of us in the Congress realize that this is absolutely the year when we have to act on social security. I worked with senior citizens before I came to the Congress, and I have never seen them as frightened as they are now about the future of their retirement. Young people as well as senior citizens want the Congress to show them now that we are going to act to insure their future retirement security.

I am very pleased that the Social Security Commission put a financing package on the table. Like everybody else in the Congress, there are parts of that package I like, parts that I don't, but the fact that there is a package on the table now is a breakthrough, and I think that the question before us is how we can build on that breakthrough, how we can strengthen it and build on that framework, and I would like to now, Mr. Chairman, briefly touch on some of my concerns and how we can build on the package that we have in front of us today.

Mr. Chairman, my foremost concern with the Commission's recommendations is that they don't recognize that to address the financing of social security properly, we have to address the financing of the medicare program.

Medicare, the health care arm of social security, now costs more than $50 billion annually and the 27 million senior citizens who depend on it for their health care are already seeing in the newspaper headlines that by 1990 the medicare program, too, will be in serious straits.

Mr. Chairman, there are not any easy solutions to financing medicare, but there are no solutions. The first principle we must accept is that proper retirement financing requires that we handle social security and medicare together—and that we do so this year.

One quick glance at medicare illustrates why we should not be dealing with social security in isolation. According to the Social Security Administration, the medicare payroll tax—currently set at 1.3 percent of earnings—must be increased an additional 2 percent within 25 years to meet the rising costs of medical care. In addition, their analysis shows, within 50 years this regressive payroll tax must be tripled to meet spiraling medical costs.

These projections have to make us concerned about the Commission's proposed acceleration of the social security payroll tax. There is no way that this Congress, or any Congress, is going to be able to tell the American people—50 percent of whom already pay more in social security taxes than income taxes—that right after social security taxes are raised, a whopping medicare tax increase also will be needed.

There are alternatives, Mr. Chairman, and I think it is time to face them. Medicare should be reformed, not smothered in regressive taxes.

First, we must change the medicare reimbursement system. Today's reimbursement system rewards doctors and hospitals for being inefficient, and penalizes them for taking steps to deliver quality care at reasonable prices. Reimbursement today is cost-based and allows providers to bill the Government after the fact for a percentage of what they claim a service cost. Costs stay high under medicare because the more that is charged for a service, the more that can be reimbursed.

In place of this system which locks in inefficiency, we should institute a new system that rewards providers for sitting down with the Government before they provide services and working out a reasonable payment schedule for those services. Yesterday, I introduced legislation to make these changes in the medicare reimbursement system. This bill, H.R. 1227, has been referred to your committee, as well as the committee I sit on, the Energy and Commerce Committee, and I am very hopeful it will be acted upon favorably.

The second step we should take is to develop ways to reduce the growth of medicare and social security payroll taxes. One possible approach would be to separate medicare and social security payroll taxes, and transfer one-fourth of the medicare tax to social security. This would avoid the need to implement the Commission's proposed acceleration of social security payroll taxes—and we all know that payroll tax increases will only make it tougher to get small businesses growing and out-of-work Americans back on the job. If America does not get back to work, the social security system will lose along with everyone else.

Under this plan, the remainder of medicare would be partially financed through a modest increase in the tax on hard liquor, which has not been increased since 1951. In the long run, this proposal could reduce projected medicare payroll tax increases by one-half, as well as reducing currently scheduled social security payroll tax increases.

Mr. Chairman, I think that this is fair—in a way, my most important concern—because I think to adequately finance retirement, we are going to have to deal with social security and medicare this year.

Beyond medicare, the second major concern I have with the Commission's recommendations is that they virtually ignore the productivity of older Americans. Specifically, the Commission does little to give incentives to older Americans who want to work. I don't think this is good public policy. Not only do we lose contributions that might be made to the system, we discourage productivity.

A particular point of concern is the Commission's failure to make changes in the earnings test, a bizarre discrimination which means that if an older person gets up at 6 in the morning and drives a milk truck to supplement their retirement, he or she has to give up half of what they earn over $6,600 per year, but if they rely on stocks and bonds and other such sources for their livelihood, there is no limit at all. If they get up a little later and work with their stocks and bonds, they are allowed to keep every single nickel of that and not have to give up their social security.

We need to look at all ways to treat retirement income fairly.

Another area I would like to touch on very briefly deals with the way the Commission handled the COLA's.

Beyond medicare and older worker productivity, I am concerned with the way the Commission handled cost-of-living adjustments. Under the Commission's plan, even if the Consumer Price Index drops below 3 percent in 1983—and there are indications that it may—social security beneficiaries will not receive any cost-of-living adjustment. Thus, people who rely on social security for their entire income will be deprived of any cost-of-living adjustment for almost 2 years.

A lot of low-income people who are really dependent on social security for the great bulk of their retirement would literally be deprived of any cost-of-living adjustment for almost 2 years, and the wealthy retirees, both at home and here in Washington, have approached me and said that they can certainly absorb some changes in their COLA's, but that 3 percent trigger, particularly because of its impact on the low-income senior citizens, is something that concerns me very much.

Many will argue for the Commission's COLA recommendations and say that the SSI program, supplemental security income, will pick up where the COLA leaves off. Having worked with older people for a long time before I came to Congress, I am not so confident about that. I think that a lot of seniors feel there is a stigma with the SSI programs and in the past some of the qualifications procedures have made it tough, even for those who want to get involved, want to consider it.

The one thing I will say, I think it is critical that we build a basic floor of protection under those low-income senior citizens, or else this institution would face a very serious embarrassment this upcoming summer, Mr. Chairman, where, in effect, those at the top of the economic ladder in this country would get a 10-percent tax cut and a lot of the low-income senior citizens would find it even tougher to keep up with the cost of living.

One last point, Mr. Chairman, and I know it has been a long morning.

Finally, I would like to see the subcommittee examine the long-term implications of the basic tax structure.

Every person in this room wants to make sure our future does not include more payroll tax increases that would fall heaviest on small business, the self-employed and middle-income Americans. I want to make it clear that I think it is unfortunate that the Commission did not carefully examine the issue of the social security wage base.

All the small business leaders tell me if they are given an up or down choice between raising wage base and the payroll tax rate, those small business leaders will choose the wage base every single time.

A lot of other Americans are questioning why somebody with an income of $100,000 pays the same into social security as those with an income of $35,700, and I would only like to ask, Mr. Chairman, before this committee sends a bill to the floor, I would hope we could analyze and carefully debate the future of the wage base.

We are in an era of choices, and if, in fact, changes in the wage base can keep the payroll tax rate growth down, we would be cheating the future if we did not carefully examine this option, because when we are all said and done, the retirement question is twofold: protecting retirees and promoting economic growth and jobs, and there is nothing that discourages economic growth and jobs more than the question of just continually raising the payroll tax increases.

Mr. Chairman, I spent the last few minutes expressing my thoughts on how we can strengthen the long-term future of the program. You know now that I have concerns about the Commission's recommendations, but I, too, want to commend the Commission for laying a bipartisan foundation in front of this country for dealing with social security.

It seems to me now that if we can expand on that kind of teamwork approach, and particularly critical social security and medicare financing together this year, then this Congress, our 98th, can really go down as a memorable one in history.

Thank you very much.

[The prepared statement follows:]

STATEMENT OF HON. RON WYDEN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Mr. Chairman and members of the committee, thank you for allowing me to testify today.

No issue before the 98th Congress is more critical than the one we discuss today—the effort to develop ways to strengthen social security, the most important domestic program ever operated by our Government.

Mr. Chairman, this is the year we have to act on social security. I worked with the elderly for 7 years before I came to the Congress—and I've never seen them so frightened about the future of their retirement. And concern is truly inter-generational. The young, as well as the old, want us to show them that we will act now to ensure their future retirement security.

I'm pleased that the Social Security Commission put a financing package on the table. Like everyone else, there are parts I like, and parts I don't. The fact that at least there's a package on the table, however, is a breakthrough.

Despite this breakthrough, and despite the framework we've been given by the Commission, however, I think the Commission's product is only a start. I would like now to briefly outline my concerns and discuss how we can build on what we have before us.

My foremost concern with the Commission's recommendation is that they do not recognize that to address the financing of social security properly, we also have to address the financing of medicare. Medicare, the health care arm of social security, now costs more than $50 billion annually, and the 27 million retired Americans who depend on it for their health care are already reading headlines that declare it will be in serious straits by 1990.

Mr. Chairman, there aren't any easy solutions to financing medicare, but there are solutions. The first principle we must accept is that proper retirement financing requires that we handle social security and medicare together—and that we do so this year.

One quick glance at medicare illustrates why we should not be dealing with social security in isolation. According to the Social Security Administration, the Medicare payroll tax—currently set at 1.3 percent of earnings—must be increased an additional 2 percent within 25 years to meet the rising costs of medical care. In addition, their analysis shows, within 50 years this regressive payroll tax must be tripled to meet spiraling medical costs.

These projections have to make us concerned about the Commission's proposed acceleration of the social security payroll tax. There's no way that this Congress or any Congress is going to be able to tell the American people—50 percent of whom already pay more in social security taxes than income taxes—that right after social security taxes are raised, a whopping medicare tax increase also will be needed.

There are alternatives, Mr. Chairman, and I think it's time to face them. Medicare should be reformed, not smothered in regressive taxes.

First, we must change the medicare reimbursement system. Today's reimbursement system rewards doctors and hospitals for being inefficient, and penalizes them for taking steps to deliver quality care at reasonable prices. Reimbursement today is cost-based and allows providers to bill the Government after-the-fact for a percentage of what they claim a service cost. Costs stay high because the more that is charged for a service, the more that can be reimbursed.

In place of this system which locks in inefficiency, we should institute a new system that rewards providers for sitting down with the government before they provide services and working out a reasonable payment schedule for those services. Yesterday, I introduced legislation to make these changes in the medicare reimbursement system. This bill (H.R. 1227) has been referred to your committee, and I hope it will be acted upon favorably.

The second step we should take is to develop ways to reduce the growth of medicare and social security payroll taxes. One possible approach would be to separate medicare and social security payroll taxes, and transfer one-fourth of the medicare tax to social security. This would avoid the need to implement the Commission's proposed acceleration of social security payroll taxes—and we all know that payroll tax increases will only make it tougher to get small businesses growing and out-of-work Americans back on the job. And if America doesn't get back to work, the social security system will lose along with everyone else.

Under this plan, the remainder of medicare would be partially financed through a modest increase in the tax on hard liquor, which has not been increased since 1951. In the long-run, this proposal could reduce projected medicare payroll tax increases by one-half, as well as reducing currently scheduled social security payroll tax increases.

Beyond medicare, the second major concern I have with the Commission's recommendations is that they virtually ignore the productivity of older Americans. Specifically, the Commission does little to give incentives to older Americans who want to work. I don't think this is good public policy. Not only do we lose contributions that might be made to the system, we discourage productivity.

A particular point of concern is the Commission's failure to make changes in the earnings test, a bizarre discrimination which means that if an older person gets up at 6 in the morning and drives a milk truck to supplement their retirement, he or she has to give up half of what they earn over $6,600 per year, but if they rely on stocks and bonds and other such sources for their livelihood, there is no limit at all.

And the earnings test is not the only way we discourage older Americans from remaining in the workforce. Future productivity demands we consider elimination of the earnings test and develop other incentives that will allow seniors to work if they so choose.

Beyond medicare and older worker productivity, I am concerned with the way the Commission handled cost-of-living adjustments (COLA's). Under the Commission's plan, even if the Consumer Price Index drops below 3 percent in 1983—and there are indications that it may—social security beneficiaries will not receive any cost-of-living adjustment. Thus, people who rely on social security for their entire income will be deprived of any cost-of-living adjustment for almost 2 years.

Not only does this not make sense, but it is grossly inequitable. Although wealthy retirees tell me that they can absorb some changes in their COLA's, these COLA reductions almost assuredly will have a devastating effect on the low-income elderly.

Supporters of the Commission's COLA recommendations contend that the supplemental security income (SSI) will pick up where the COLA cuts leave off for low-income elderly. I am not so confident.

My experience has been that most senior citizens are reluctant to even come near the SSI program, because they consider it welfare, and that the complicated qualification rules discourage many who might otherwise consider it. Congress must ensure that any social security package we approve sets a basic floor of protections for senior citizens. Otherwise, this institution faces a potentially embarrassing situation next July, when we will see the rich reap the benefits of a 10-percent tax cut, while low-income seniors find it even harder to keep up with the cost of living and pay for necessities.

Finally, I think we should examine the long-term implications of social security's basic tax structure. Everyone in this room wants to make sure that our future does not contain more payroll tax increases that would fall heaviest on small business, the self-employed and middle-income Americans. I want to make it clear that I think it's unfortunate that the Commission did not carefully examine the issue of the social security wage base.

For example, small business leaders tell me that if they are forced to choose between raising the wage base and raising the payroll tax rate, they will choose the wage base every time. Certainly, most Americans question why those with incomes with $100,000 pay the same into social security as those with an income of $35,700. I'd like to ask that before this committee sends a bill to the Floor, it analyzes and carefully debates the future of the wage base. We are truly in an era of choices. If changes in the wage base can keep payroll tax rate growth down, we would be cheating the future not to carefully examine this option.

Mr. Chairman, I've spent the last few minutes expressing my thoughts on how we can strengthen the long-term future of social security. Despite my obvious concerns about the Commission's recommendations, I think that the Commission is to be commended for helping this nation lay a bipartisan foundation for dealing with social security. If we can extend this teamwork approach now by intertwining social security and medicare into an equitable financing system for all Americans, the 98th Congress will go down in history.

Thank you.

Chairman PICKLE. We thank you, Mr. Wyden.

Again, I wish to repeat the appreciation of the Chair for your active interest in making suggestions to this program. I have noted the recommendations you have made, and I know they will be of interest to the subcommittee.

When you said you would remove the earnings test, would you remove it completely?

Mr. WYDEN. I think that we should debate that, but I think there is probably a phase-out provision, something, of course, to cushion the revenue side, but I would only say that that is the tip of the iceberg in terms of incentives for older workers.

Some have recommended changes in the payroll tax, as far as employers that are willing to hire older people, and I would say, let's put that on the drawing board as well.

Chairman PICKLE. We grant a certain exemption for recipients; we do that now, around $6,500, and we have no deduction up to that point.

At what age would you remove the earnings test? Sixty-five? Sixty-eight?

Mr. WYDEN. If you look at the earnings test, specifically we should look at phasing it out to cushion the revenue impact.

I wish to come back to this point of treating all retirement income fairly; I just think it is so very inequitable when a senior citizen gets up at the crack of dawn and drives a milk truck, we penalize them for what they earn doing that hard physical labor, but if they can end up making some money with their stockbroker, they get to keep every nickel.

At the end of the line, we must treat all retirement income fairly in this country.

Chairman PICKLE. I am not in disagreement with you. I made recommendations along this line before, but it is difficult to make changes at a time when people still argue that social security benefits are given in lieu of wages, and until we change the basic definition of what is social security, we still will have this problem, and I don't know that we will be able to resolve this in the Commission bill before us. You do raise a valid point.

We would be better off in time to set a removal of the earnings test, because we would probably end up making more money for the Treasury if people were allowed to work.

Mr. WYDEN. The evidence would be—there have been projections on this—that even a 10-percent addition in terms of older people that would work because of an additional incentive would more than make up any potential revenue loss.

I hope the committee will look at these various kinds of options, and many of the labor forecasters say that this particularly makes sense looking at the long-term future, because the birth rates have leveled off somewhat, and in 60 years the employers are anxious to have older workers; that makes it even smarter to have incentives for people who want to keep working and paying into the system.

Chairman PICKLE. Mr. Crane?

Mr. CRANE. I wish to commend you for that proposal that you were having the conversation about.

I have had legislation in to do this for years.

It seems to me so sensible and logical an idea.

I am curious if you have any thoughts as to where the resistance to that proposal comes from.

Mr. WYDEN. There are lots of Americans who never accuse our Government of being logical, and this would probably be an example of something that I think represents first an antiquated concept. People look at this and say perhaps this is a relic of another time. The Chairman offered an explanation of social security that is perhaps an argument for this, but now we are in a very different part of our history, lifestyles, health care trends—all of these things have changed very greatly.

A lot of the seniors tell me they would like to share a job, work part time.

Probably that earnings test is a relic of a day gone by, and as we look now, particularly as you look at a future-oriented social security package, building in a package of incentives for older people who genuinely want to keep working, makes a lot of sense, and I would regard that as second behind my medicare recommendations in terms of importance.

My medicare recommendations are central to both programs, and right behind it are the ones involving the older workers.

Mr. CRANE. When I first got married and started having children, many seniors that babysat preferred always to be paid in cash.

IRS has discovered an underground economy just recently.

Have you encountered any resistance from your colleagues to this proposal?

I have been puzzled as to why there has been no implementation of this.

Mr. WYDEN. Some colleagues are worried about the revenue projections with the system—I will lose money—and the fact is that if we pursued this in a gradual way, we can essentially make it revenue neutral, which is the new term for not really being out any additional funds at a time of a deficit. I am committed to working with the subcommittee to do that, and most of my colleagues are, and there are a variety of incentives that we can pursue; and beyond that question of possible revenue projections, I can't conceive of how any American could possibly be against giving people incentives who want to work.

Mr. CRANE. Medical studies indicate that that adds to increased longevity and good health by remaining active, and you are to be commended for taking the position. You can count on my support in that effort.

Chairman PICKLE. Mr. Thomas?

Mr. THOMAS. Thank you, Mr. Chairman.

Mr. Wyden, in terms of your suggested medicare changes, have you seen the administration's proposal on the medicare reimbursement plan?

Mr. WYDEN. I have worked closely with the administration on their medicare prospective payment plan, and the bill that I introduced yesterday differs in two specific regards, and I would like to go through that, because I am very——

Mr. THOMAS. Briefly. It is on my time.

Mr. WYDEN. The administration's plan sets up a national system for calculating costs based on diagnostic-related groupings, DRGs. What I have felt and what my bill does is it gives the option to States to set up their own prospective payment plans and gives them the option to do it themselves, and I think this is something that a lot of States that have already gone to prospective payment plans say is a good idea, because the States can tailor it to their unique areas.

We learned during cost containment years ago that what applies to a hospital in California doesn't work for facilities in the Bronx, and what they need doesn't apply in Portland, Oreg. My provision differs because it lets States set up their own plans.

The second part is I want to gradually phase in all payors to prevent cost shifting. As I understand, most of the medical profession feels we ought to phase in all payors. The administration claims it is based on the energy prospective payment plan. The fact of the matter is in energy they have all payors. I hope with my bill and the administration's we will come to a meeting of the minds on that this year.

Mr. THOMAS. I think you will find that the opposition to removing an earnings tax doesn't come from our side of the aisle but rather from yours. Also, I thought you are correct in terms of the payroll tax increases and how that is not the proper way to go.

Understanding the constraints and limitations under which we have to work, if you had to make a choice beyond 1990 in terms of the Commission's two proposals of increasing taxes or increasing the age at which people could retire, which one would you choose?

Mr. WYDEN. I wouldn't frame the choices in that area.

Mr. THOMAS. I understand that, but given the limited area that we have, if you are in the procrustean bed and you have to make a choice, you can say I won't choose because I am not on the committee, but if you had your druthers——

Mr. WYDEN. I would want to think about it more. The first choice is the package I set out here dealing with medicare, which I think we can deal with responsibly and are close to a bipartisan arrangement already, incentives for older workers and making sure that we don't just uncork these payroll tax increases, because I am concerned about economic growth and jobs.

My area is devastating, timber and housing and small business. I am afraid that after this package is approved we will be staring at another one with respect to medicare, so I want us to deal with medicare this year and do everything we can to hold down the payroll taxes.

Mr. THOMAS. Is it safe to assume that you would want to pursue other avenues first?

Mr. WYDEN. Absolutely.

Mr. THOMAS. A lot of your work is going to have to be on your side of the aisle, because when you go through the proposals, in terms of support of the increase, all five nominees of the Speaker were in support of that. I support what you said. You understand the difficulty of addressing medicare. I think we need to do both.

We need to maintain a bipartisan approach and I commend you for your insights as to what can be done in terms of not so major but important modifications and in terms of basic modifications that need to be done.

Mr. WYDEN. We all understand that this is going to have to be a bipartisan effort. I am committed to doing it. That is why it is exciting that we have a breakthrough that at least puts a package in front of us on the Commission effort. I want to come back to the point that the small business community has made very clear—if they are forced to choose in the next few years between raising the wage base and raising payroll taxes, those small business leaders that are on the front lines of trying to grow and create jobs, they will choose the wage base, and that is why I think it is very important that the committee analyze that wage base and look at the possible ways in which further approaches could be considered in that area, because I think we have to respond to that economic growth and jobs concern that we hear from small business and particularly it is creating most of the jobs.

Mr. THOMAS. Thank you, Mr. Chairman.

Chairman PICKLE. Mr. Jacobs?

Mr. JACOBS. Mr. Wyden, you are welcome as usual.

As I understand your written testimony you think this is a pretty good package but it could be improved by including packaged liquor? I didn't hear the last, but I agree very much with what you said. I think the package was a breakthrough.

Mr. ANTHONY. It could be improved by including packaged liquor? Candy is candy but—liquor raises more tax.

Mr. **Wyden**. I think that we should look at the possibility of a modest increase in the tax on hard liquor. It hasn't been considered since 1951, as I understand it. I think we should look at that earmarked for the medicare program.

Mr. **Jacobs**. Some of the payments made by the medicare trust fund?

Mr. **Wyden**. Yes.

Mr. **Jacobs**. You are aware that the retirement test was a part of the Social Security Act from the very beginning, and the idea was that retirement benefits would not be paid to a person who is not retired.

Don't you find some analogy between that and say a life insurance policy that no matter how much you pay into it, if you never die you cannot collect? Or an automobile policy, you first must perform the duty of having an accident before you can collect on the premiums you have made—do you see an analogy?

Mr. **Wyden**. Do you mean the earnings test which you can earn?

Mr. **Jacobs**. What the law calls it, the retirement test. When you get ready to get rid of it, the first thing you want to do is call it an earnings limitation. From that step you go ahead and take it off. Do you want to take it off altogether or do you just want to liberalize it?

Mr. **Wyden**. What I talked about with the chairman is the idea possibly of phasing it out and looking at that and other kinds of incentives we can come up with for older people who want to keep working and choose to do so. They are going to help us strengthen the system and I think we have to pursue in a way to make sure that the revenue projections are not going to hurt it at a time when we have a $200 billion deficit.

Mr. **Jacobs**. When you get rid of it, the retirement test, so you don't have to be retired to collect benefits, despite the illegal ring to that phrase, I suppose if I were a lawyer and got to be 65 years of age, if I were bringing in $100,000 a year income, I go ahead and collect the social security benefits—I believe they call that golf cart money—would you favor that?

Mr. **Wyden**. I think the retirement test is a key to tax justice. If you get up at 6 in the morning and drive a milk truck——

Mr. **Jacobs**. I read the statement. If I get up at 6 in the morning and drive a milk truck I probably am not going to bring in $200,000 a year, am I, unless I milk it for all it is worth?

Mr. **Wyden**. We are descriminating against the person making $12,000 in favor of the person who is rich on stocks and bonds, and he gets everything.

Mr. **Jacobs**. If I make $200,000 a year as a lawyer and I have practiced long enough to have that kind of a fee, are you sure if I handle a divorce case and charge $50,000 as a fee I have done much more work than the fellow just out of law school who gets $1,000 for it?

Mr. **Wyden**. I would only say that to really promote tax justice we have to figure out a way to treat retirement income fairly. It just seems to me that someone 67 years old that really beats their brains out at a hard labor physical job, to supplement their retirement you take half of what they made from their initiative and yet the higher income person gets to keep it all.

Clearly we are going to debate this some more.

Mr. JACOBS. Mr. Chairman, I just say for the record, if a person gets up at 6 in the morning and delivers milk, I think consideration ought to be given to him or her. You can liberalize the retirement test without taking it off altogether. If you take it off altogether the sky is the limit, and the rich get richer and the poor get poorer, and you squeeze the trust fund for the people who need it. Otherwise, I think you have made a brilliant presentation.

Chairman PICKLE. Thank you very much.

The Chair asks Congressman James McClure Clarke of North Carolina to come to the witness table.

Congressman, you have been very patient. I noticed that you were here at 9 this morning, and it is approaching 1 and you have sat there patiently and calmly. I hope you got something out of the hearing. I am sure you have. We appreciate your willingness to wait. Your name appeared on the list, and we have to go by some order. Thank you for waiting, and thank you for your interest.

STATEMENT OF HON. JAMES McCLURE CLARKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

Mr. CLARKE. Mr. Chairman and members of the subcommittee, I appreciate the chance to testify before you. You have my written statement, and since you do, I am going to just summarize my remarks if that is all right.

Chairman PICKLE. Your entire statement will be in the record, and you may proceed. We are not going to try to cut off your testimony.

Mr. CLARKE. I appreciate the opportunity to appear before you today to share my views on the proposals formulated by the National Commission on Social Security Reform. I have had the opportunity to review the Commission's work, and I find it an acceptable package designed to help Congress reach a bipartisan solution.

While all of us have problems with one or more aspects of the Commission's work, I believe the proposal represents a reasonable and fair solution to the problems which confront the system. It is also a delicate political agreement accepted by both President Reagan and Speaker O'Neill.

I represent a district in Appalachia where there are many low-income people, right in the heart of Appalachia. We have thousands of people depending on social security checks, we have several thousand who depend on the minimum social security as their only cash income, so the integrity of this system is very important to us. I would like to point out that I feel that the solution is very good because everybody is giving a little, and we have problems, a 6-month delay in the cost-of-living adjustment is a problem, but it appears to be necessary.

We have a great many retired Federal workers in—active Federal workers in my district, and I am glad that their benefits will not be diminished. Most people in my district would feel, although it is hard, that moving up the social security tax increases scheduled for 1985 and 1990 is difficult, but that it is the only way to solve the problem.

In regard to the taxing of the social security benefits for upper-income Americans, this also seems reasonable to me. I think it is very wise that we are not permitting further State and local and municipal government employees to withdraw from the system, because if we are not all in it, it is not going to work.

Our women will be very happy to have the changes in the system that make it more fair to women, because the whole matter of women in the work force has changed so drastically since this law was originally put into effect in the 1930s.

In closing, gentlemen, I just wanted to point out that there is one matter which cannot be handled by the Commission. While the Commission has done an admirable job in analyzing the system and presenting solutions, there is one area over which the Commission has no control, and that is the problem of unemployment. Ten-percent unemployment has had a very serious effect on programs like social security which depend on full employment and a healthy economy for survival. No system, no matter how well conceived, can long survive double-digit unemployment. A fundamental problem of the social security program is a lack of employment opportunities and growth in the American economy. We must put our people back to work.

Mr. Chairman and members of the subcommittee, thank you for this opportunity to testify and provide my views on this important subject which means so much to all our people. I look forward to working with all of you in approving a package which will provide a solution to this problem.

[The prepared statement follows:]

STATEMENT OF HON. JAMES MCCLURE CLARKE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NORTH CAROLINA

INTRODUCTION

Mr. Chairman, members of the subcommittee, I appreciate the opportunity to appear before you today to share my views on the proposals formulated by the National Commission on Social Security Reform. I have had the opportunity to review the Commission's work and I find it an acceptable package carefully designed to help Congress reach a bipartisan solution to the pressing problems posed by the financial condition of the social security system.

While all of us have problems with one or more aspects of the Commission's work, I believe their proposal represents a reasonable and fair alternative to the problems which confront the system. It is also a delicate political agreement accepted by both President Reagan and Speaker O'Neill. We cannot afford to destroy this agreement. It reassures those who are currently receiving social security benefits, those near retirement who have worked hard throughout their working careers, and those younger persons in the work force whose support of the system is crucial to making it viable. Although I want to make it clear that I cannot support cuts in social security benefits, we cannot, we must not, lose this opportunity to maintain the solvency of the social security system.

Since the middle 1930's under the leadership of President Roosevelt, our country has held fast to the ideal that our nation's older citizens should be properly cared for in their retirement years. For many older citizens of my district in western North Carolina, social security benefits have made the difference in whether they live a life of hope and happiness, or a life of despair and poverty. Today, I share not only my views of the Commission's work, but I bring to the subcommittee's attention the faith of many in my congressional district who are depending on Congress to maintain the integrity of the system.

SACRIFICE BY ALL

The admirable part of the Commission's report is that all Americans are called on to sacrifice somewhat for the good of the entire system. These sacrifices are such that those who can least afford reductions do not have to suffer unjustly.

While I would have preferred not to see the 6-month cost-of-living increase delay for current beneficiaries, I can accept with some reluctance the Commission's agreement to postpone the July increase until January 1984. The agreement to accept the delay was in my opinion a necessary part of the compromise package.

The proposal to include all new federal workers into the system beginning in 1984 must not diminish the benefits earned by current federal workers. I am pleased with the recent statements by the House leadership that current federal workers will be protected against a loss in benefits.

TAX INCREASES

As for the acceleration of the tax increases scheduled in 1985 and 1990, I see this as a necessary step. These increases were voted by Congress in the late 1970's. To compensate for moving up the 1985 tax increase to 1984, the Commission was wise enough to provide a tax credit which could be taken by workers required to pay the additional social security tax. In effect, workers would not be forced to bear any additional burdens.

The taxing of benefits of older Americans exceeding certain income standards is another step which I would have preferred to avoid. Fortunately, the Commission chose to tax only those with incomes—exclusive of their social security income—in brackets where they are able to bear the burden more easily. The Commission chose to tax only 50 percent of the benefits, that is, the portion contributed by the individual's employer.

WITHDRAWAL PROHIBITION

The Commission's recommendation to disallow withdrawal of State and local governments from the system is also wise. Not only does the withdrawal of local governments from the system impact the future benefits of employees of these governments, but the loss of revenue from the taxes paid by these men and women is a further drain on the social security system. While we are legislating against withdrawals from the system, we must also be willing to permit employers to reenter the system without penalty.

WOMEN AND SOCIAL SECURITY

The Commission's efforts on behalf of women are also to be commended. For too long, the social security system has adversely affected women who have shared the burden of either paying taxes into the system or who have been part of a partnership with their spouse. With changes in the work patterns for women today, we must remedy any inequities which discriminate against them. I am pleased to see that corrections have been made which will treat men and women more equitably in the system.

SOCIAL SECURITY AND THE ECONOMY

While the Commission has done an admirable job in analyzing the social security system and presenting proposals to solve its problems, there is one area over which the Commission has no control—the problem of unemployment. Ten percent unemployment has had a negative effect on programs like social security which depend on full employment and a healthy economy for survival. No system no matter how well conceived, can long survive double-digit unemployment. A fundamental problem of the social security program is a lack of employment opportunities and growth in the American economy. We must put our people back to work.

Once again, Mr. Chairman and members of the subcommittee, thank you for this opportunity to testify and provide my views on this important subject. I look forward to working with my colleagues in approving a package which will provide the American people with an example of our cooperation in working together to solve this problem.

Chairman **Pickle**. We thank you, sir. You certainly have hit the nail on the head when you said the biggest problem is putting people back to work. If we could get these 10 or 12 million people back on the payroll and paying taxes, that would save a lot of wailing and gnashing of teeth up here. I find your testimony wholesome and agree with it in every respect. I think you have got a good attitude on it. I am glad that you presented your testimony and you waited to say so, because I think your attitude is very reasonable, so we appreciate your being here. I wish all members would be that open and willing to cooperate as you indicated with your testimony.

Mr. Crane.

Mr. Thomas.

Mr. Jacobs.

Mr. JACOBS. I want to thank you that you have displayed more patience than most people who work here would. That is a good start.

Chairman PICKLE. Is Congressman Lane Evans here?

STATEMENT OF HON. LANE EVANS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS

Mr. EVANS. Right here.

Chairman PICKLE. Mr. Evans, we are glad to have you. I see that Congressman Smith is also waiting, who also has been very patient here. I think you, Mr. Evans, and Mr. Smith are the only other two witnesses that we have. Do we have others that we have not heard from who want to be heard this morning? Then we can look forward to the conclusion of a good hearing this morning. We will ask you to proceed now, Mr. Evans, if you will.

Mr. EVANS. Thank you, Mr. Chairman. I thank you and the committee for the opportunity to testify before the committee today. I commend you for holding hearings on the report of the National Commission on Social Security Reform, and I appreciate the chance to address the problems faced by the social security system, because those problems are of great concern to my constituents.

The social security system has emerged over the last 40 years as one of the Federal Government's greatest responsibilities. It is a responsibility that affects broad sections of our society and that even crosses generations. We must, therefore, weigh each change in the system with care. Our decisions regarding social security may very well be the most important decisions we make during the 98th Congress.

In light of our responsibility, we should treat the report of the National Commission on Social Security Reform as a starting point for thorough congressional review. I commend the Commission for its efforts in working to achieve a solution to social security's problems, but I am seriously concerned about four of the Commission's recommendations. I urge this committee to take a very close look at these points:

One, the delay in cost-of-living adjustments for social security recipients; two, the taxation of social security benefits; three, the increase in the self-employment tax; and four, the extension of social security coverage to Federal employees.

First, the proposed delay in cost-of-living adjustments is more than just a minor adjustment. It is a cut in benefits which will harm low-income recipients—people who in most cases have experienced a steady erosion in their standard of living over the last several years. Inflation throughout the 1970's had a disastrous impact on our elderly. COLA increases have provided meager, but crucial, protection to them. The proposed improvements in supplemental security income benefits are insufficient to offset the damage done by postponing COLA increases. This delay would be a major blow to the security of our senior citizens.

Second, the taxation of social security benefits concerns me because it changes the "rules of the game" after many of our senior citizens have arranged their financial plans. While this change is being billed as a "$30 billion revenue enhancement," it is actually a means test and represents a cut in benefits, requiring our elderly to shoulder a major burden for social security reform. We need to be very careful about taking the unprecedented action of taxing social security benefits, particularly when the long-term deficit remains unresolved.

Third, raising the self-employment tax damages our commitment to small business. This is an unfortunate economic move at a time when many self-employed people have been hard pressed to keep their businesses going. The original intent of the lower rate was to aid small business. Yet, under this proposal, small businesses bear the brunt of this taxation, while larger corporations and companies can take better advantage of the tax deductions. As a self-employed lawyer, I saw how tough it was for the small businessman, and I believe we should not take actions which aggravate the problems small businessmen face, particularly in this period of recession.

Finally, the proposal to extend coverage of the social security system to include 2.7 million Federal employees has several weaknesses. The inclusion of new hirees into social security will completely undermine the financially sound civil service retirement system. In the long run, I cannot escape the conclusion that this change will bankrupt the civil service retirement system. In approximately 20 years—assuming a modest inflation rate of 5.5 percent—the Federal Government's obligation could rise to $550 billion. I see no solution except for the Congress to meet this obligation out of general revenue.

We had a similar problem in my district which we are still trying to resolve. We encountered difficulties when the Congress merged the railroad retirement system into social security in the early 1970's. Congress has since found it necessary to make significant contributions from general revenues to meet its obligation to retired railroad workers.

I can only conclude that the Commission's recommendation regarding Federal workers will undermine a sound system while failing to resolve the financial problems of social security. The revenues raised by including Federal employees will be more than offset by the increased obligations. As the Wall Street Journal stated on January 24, "Social security's future unfunded liabilities of $6 trillion will increase by almost another trillion" with the inclusion of Federal workers.

The Commission's recommendations would provide a further disincentive to join Government service. Federal salaries already lag behind private sector salaries. A stable and reliable retirement system has, in the past, helped to make up for the difference in salary levels. With the freeze on salaries contained in the fiscal year 1984 budget, we are asking current Federal employees to sacrifice more than any other group. It will be even more difficult to continue to attract new employees into Federal service if we include them under social security but we neglect to establish a sound supplemental retirement system. The Commission suggests that this be done, but no concrete proposal for such a system has been presented. We would not be fair to Federal employees if we jeopardize their present system and offer only a hazy description of what might take place.

In conclusion, I feel that, though the Commission has made a determined effort to develop farsighted and lasting reforms, Congress must accept responsibility for periodically reviewing the social security system's performance. The assumptions of the 1940's may not meet the benefit requirements of the 1980's and the 1990's.

The only thing that cannot change is our commitment to social security, even if it requires sacrifices in other governmental programs.

Thank you, Mr. Chairman and members of the committee, for the opportunity to testify before you today.

Chairman PICKLE. We thank you, Mr. Evans. We appreciate your testimony. A lot of us would agree with you, the points you have made. You have some objection to delaying the cost of living. You do not like the idea of taxing benefits at any level. You think the agreement is very hard on the private independent worker, the self-employed, and you would not approve of the Federal employees new hires being included.

Of those four categories which are in the Commission package, it raises well over—about two-thirds of the revenue that would be brought about. Let us say we take all four of those out. Would you have a recommendation where we would raise the other $120 billion we need?

Mr. EVANS. That is a good question, Mr. Chairman, and as a new member I have not had the time or the staff to put into developing alternatives. I know that there have been several alternatives proposed to the Commission as far as spreading the burden of the social security system over additional wages. I would tend to favor that if it meant——

Chairman PICKLE. I would not expect you to have an answer to it nor anyone else, but that poses a problem to the solution here. This package is broad-based, it touches on a lot of areas that we would not prefer, but overall it seems to be rather balanced as a package, and if we take out one section of it, we have to replace it with funds in that amount.

Mr. EVANS. I understand, Mr. Chairman. I do not want to sound totally negative, because I think the Commission efforts are good.

Chairman PICKLE. We share much of the apprehension you have about some of these things, but we also must move forward.

Mr. EVANS. I understand, Mr. Chairman.

Chairman PICKLE. Mr. Crane.

Mr. CRANE. No questions, Mr. Chairman, but I thank my good friend and colleague, a recent addition from the State of Illinois, for his testimony.

Chairman PICKLE. Mr. Thomas.

Mr. THOMAS. Just briefly, in your testimony, Mr. Evans, you indicate that the inclusion of new hirees in social security will completely undermine the financially sound civil service retirement system, and that you see no solution except for the Congress to meet this obligation out of general revenue. We are doing that to the tune of 80 percent already, do you know that?

Mr. EVANS. That may be your figures. I have other figures that it is a pay-as-you-go system at the present time, that it generally has been. You may dispute those figures, but that is the information I have, that generally it is a sound system.

Mr. THOMAS. Robert J. Myers, who is known as someone who is fairly accurate, gave us figures on that. You do not feel that the figure over the decade 1970 to 1981 in terms of the ratio of Government to employee contributions is the 298 percent that he indicates?

Mr. EVANS. I cannot dispute that, because I do not have the statistics in front of me, but I understand that his testimony either has been disputed or will be disputed, and I am not prepared at this time to dispute it myself. I understand that he raises some significant objections.

Mr. THOMAS. I certainly await the alternate figure showing that to the tune of almost 300 percent Government-to-individual employee contributions we are not underwriting the civil service program already.

In terms of your summation, you say that the assumptions of the 1940's may not meet the benefit requirements of the eighties and the nineties. Basically, you object to the short-term program that the Commission has advocated through 1990. Do you feel that it is equitable that the retirement age of 65 in 1940 would be equated to something around 69 years today, and that one of the real questions of equity is whether or not we maintain the age 65 to the year 2015, which would then make it about equivalent to 71 years of age, and that those folks who are currently and will receive benefits get a windfall of leisure years over working years in ratio to 1940 of about 7 years, is that equitable?

Mr. EVANS. It seems to me that some of the assumptions we had in 1940 may not be valid today, although I am not in favor of raising the retirement age, and I do not think it is necessarily giving people a windfall if they have paid into a system over a period of 25 or 30 years, to get benefits to last them for whatever period of time they live after retirement.

Mr. THOMAS. Do you favor the Commission's alternate proposal of increasing taxes?

Mr. EVANS. I would favor increasing taxes over raising the retirement age.

Chairman PICKLE. Thank you, Mr. Evans.

Now we will ask Congressman Lawrence J. Smith from Florida to testify.

Will you please take your seat at the witness table? I believe you are the last witness for the day. We are glad that you waited to present your testimony, because it shows a keen interest in helping us solve this problem we have, so we are pleased that you are here.

STATEMENT OF HON. LAWRENCE J. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. SMITH. Thank you very much, Mr. Chairman. I hope that you will be as happy to have me testify at the end as you were at the beginning. I hope that I am last but at least as capable if not least of the speakers that came before you. I appreciate being given the opportunity to testify today on the recommendations of the social security commission. I commend the bipartisan effort which brought about this proposal, because it shows a willingness to deal with a very real problem—one that this Congress cannot and must not ignore.

At the same time, I have a responsibility to tell this committee what impact the Commission's recommendations may have on the Nation's elderly. I believe that I possess some insight into this important subject. My district includes major portions of Broward and Dade Counties, Fla., most of what is known as south Florida. More than 500,000 social security recipients live in the counties of my district. But beyond the immediate impact of the Commission's recommendations affecting them, anything which affects social security directly affects all the people of south Florida—those who receive social security benefits and those who provide them with the services they utilize. To paraphrase a famous quotation, when social security sneezes, south Florida gets pneumonia. For a region already weakened by the economic slump in construction and tourism, the recommendations affecting social security have a considerable impact.

For those of us here who consider ourselves in the prime of an active life, it is hard to understand the panic and sometimes illogical reasoning of an elderly population unwilling to accept cutbacks now in order to save the system. But you must understand the circumstances in which these people find themselves.

Many of my constituents have lived longer than they ever anticipated when they financially planned for retirement. Prices have increased rapidly over the past decade as well, further dwindling the assets of the retiree. Many of these people are now entirely dependent upon social security—the funds they saved for living out their lives in the sun evaporated a long time ago.

Social security COLA's have never actually kept pace with the increased price of food and other necessities, especially in the State of Florida where we have experienced a very high inflation rate and, I might add, even though the inflation rate here in Washington is predicted about 4.5 percent, in Florida the prices of necessities, food, clothing, shelter, have not come down from their rather high prices previous to this.

Many of the people have children and grandchildren in other parts of the country. Their families have grown up and grown away from these retirees. Add to that isolation the fact that a majority of these people have lost their spouses. They watch their friends grow old, weak, and die from long illnesses. They have nothing to do but sit around and talk about rising prices, illness, and death. I think the gentleman from Oregon was quite on point when he talked about the fact that with the reduction in benefits above a $6,600 level of earnings, there is no incentive for many of the elderly retired to get out and work, and so they are to some degree perpetuated in this box of being unable to work.

It is a very difficult situation for those elderly. Their greatest fears center upon their money running out before they die—upon being ill for a long time and penniless, forced to rely upon the Government or children who no longer seem to care. This atmosphere creates a fertile ground for fear. That is why most of my mail centers around fears that the social security system is being cut back or is running out of money. These are wonderful people, people who have worked, raised children and spent their lives making America great.

I trust that, as you look at the Commission's recommendations and seek a solution appropriate for the entire Nation, you look at what you might be doing to those who have already retired or who are within a few years of retirement—too close to retiring to plan for reduced or delayed benefits.

The Commission's recommendation of a 6-month delay in cost-of-living adjustments [COLA's] frightens south Florida's elderly. Seventy percent of my district is located in Broward County, which has 256,000 social security recipients. The remaining portion of my district is located in Dade County, which has 253,000 recipients. In June 1982, the Social Security Administration paid nearly $200 million to recipients in these two counties alone. A COLA freeze (assuming CBO figures of 5.4 percent for a COLA in July) would cost south Florida nearly $65 million in 1983—money that won't be spent on food and services. Beyond the financial and emotional impact such cuts will have on the elderly, the economic repercussions will be felt heavily throughout my district and all of South Florida.

Consider as well—if the President is successful in this attempt to freeze civil service benefits to Federal workers, if he follows through on plans to significantly reduce benefits to some 100,000 south Florida veterans—how much more the social security cutbacks will impact the people in my district. The cumulative impact of these budget proposals on a region whose economy is so dependent upon retired people, Government workers, and veterans would be devastating.

It is nothing less than an economic disaster for south Florida. How can I justify to my constituents a COLA delay with this great an impact when owners of prime coastal property in California may receive some Federal disaster assistance to rebuild in the wake of last week's storms? I do not seek to look lightly at the situation in California. Their loss is real. But the loss to south Florida is just as real—if not more so. The vast majority of people hit hard by the west coast storm have the youth and energy, if not the finances, to rebuild their lives. The elderly of south Florida have only the financial security promised to them by their Government. For them this economic disaster will mean permanent deprivation, and the realization of their greatest fears.

My constituents are also concerned and upset over the proposal to tax a portion of benefits above a certain amount of adjusted gross income. I would like to quote from a constituent who lives in Pembroke Pines, Fla:

> The taxation of social security benefits is unfair, discriminatory, and violates promises made by our Government to keep these payments free from taxation. We who relied on these promises and were responsible enough to save and invest our after-tax dollars will now be penalized, and our retirement plans to be financially independent of worry will be disrupted. If this proposal is approved by Congress and enacted into law, then the Government will have violated its compact with the people and can never be trusted again to keep its word. It would indeed be tragic for our Nation if we felt that our Government was untrustworthy.

I am certain that each of you has heard similar sentiments. By initiating even a limited taxation of benefits, we are asking the people to accept a change in the rules late in the game. For many of our citizens it is the bottom of the ninth inning.

The Commission's report indicates that the taxation of a portion of benefits would affect only 10 percent of recipients. But even within the 10 percent, we have discrimination. The recommendation applies to adjusted gross income of $20,000 and $25,000 for single people and couples, respectively. A person whose non-social security income is derived from interest or dividends would be hit by the new tax. But, a person whose income is derived from tax-free bonds suffers no penalty.

This recommendation not only penalized thrift, it also penalizes those who have assumed a greater financial risk by placing their savings in securities rather than tax-free bonds, and who have helped their country by investing in the free enterprise system.

I would urgently ask you to consider, not only the impact the Social Security Commission's recommendations will have upon the Nation's elderly, but the other cutbacks in Federal assistance planned by the administration as well. With one committee we say the elderly must share in the cost of saving the social security system—while another Federal agency says the elderly must pay more of their medical expenses to help save the medicare program.

I believe this Nation's older citizens deserve more consideration—not just on the impact of whatever social security adjustments Congress must make to keep the system healthy, but on the total sacrifice their Government is asking from them. These people have worked hard and contributed all their lives to the wealth of this Nation. They should not be asked to bear an unfair amount of the total burden in the twilight of their lives.

Mr. Chairman, the Commission performed a difficult task. I do not sit here saying that I possess the wisdom of Solomon, that I could have reached a better set of recommendations.

I am saying, however, that the final legislative proposal which emerges from your committee should be equitable. The Commission wants current beneficiaries to assume nearly 42 percent of the short-term savings in the system. I hope you will remember that these people do not have the time to plan 20 or 30 years down the road. They are walking that road today.

Let's not make it any more difficult than it already is by imposing an unfair burden on these precious years.

Thank you very much, Mr. Chairman, for the opportunity to testify.

Chairman PICKLE. We are grateful to you, also, Congressman Smith, for your testimony.

Like the gentleman who preceded you, you make very pertinent points with which we would not argue because we have some of the same concerns and apprehensions you have, but we also know that the key points you mentioned are the key points in the package, and if you take all of those out, then we would have to start over again. We do not have the time to start over again, but we are in sympathy with many of the points you made. Whatever we do, it ought to be equitable. That is a key thing for us to consider.

I find throughout the country that is what the people are asking—make it fair, balanced—and people are willing now to take a hitch in their belt, do what is necessary to make this program become solvent and remove this fear that hangs over their head. That is the challenge that we have, and I am sure we will meet it.

Mr. Crane?

Mr. CRANE. No questions.

Chairman PICKLE. Mr. Thomas?

Mr. THOMAS. You said 70 percent of your district is located in Broward County, which has 256,000 social security recipients, and you have 30 percent of your constituents in Dade County with 253,000 recipients.

What does your district consist of?

Mr. SMITH. I have about 125,000 senior citizens in the Broward portion. That is absolutely less a proportion in Dade County, because it is more growing.

In my area, south Florida, the elderly do not worry about constituent lines. There is no question of district lines.

Mr. THOMAS. You are the kind of person we have to listen to in terms of the direct impact on elderly; close to 50 percent of your constituents are elderly?

Mr. SMITH. Thirty-five to thirty-eight percent. That is without figuring in any Federal retirees or veterans.

About 5,000 veterans a month move to Florida, many on veterans' benefits.

Mr. THOMAS. You have a statement saying social security COLA's have never actually kept pace with the increased price of food and other necessities.

The CPI usually overstates increases because of the housing cost component; the increase in CPI could be greater than the increase in food and clothing, excluding housing?

Mr. SMITH. It is a very unique situation in south Florida. Because of the drug trade, and these are, frankly, external influences, and other problems relating to south Florida as a result of the South American influx of tourism—south Florida saw a tremendous surge in inflation in its economy, but rather a false inflation surge. As a result, the prices of property and other items have gone considerably higher than the national average.

In Florida today, we also have problems relating to fuel costs. Florida Power and Light Co. is heavily dependent upon foreign oil. Over the years, prices have increased rapidly.

If there is any other concern besides social security, it is that many of the elderly are now being called upon to pay very, very large fuel bills; so we have had other things impacting which have kept the cost and the prices of things up in Florida that might not have been the same in Mr. Wyden's district.

Mr. THOMAS. In south Florida, social security COLA's are not sufficient?

Mr. **Smith**. Yes; that is correct.

Mr. **Jacobs**. I wish to compliment the gentleman for his testimony and say I regard your testimony as very intelligent and very articulate, and you are obviously a very excellent representative for your constituents.

The committee has a responsibility of balancing interests throughout the United States.

Mr. **Smith**. I am very interested in the equity that the chairman spoke of, but when we talk about everyone's having some contributions to make in this Commission's report—and, therefore, it seems on its face to be rather equitable—using the chairman's example of tightening your belt, some people are on their last notch already.

It does impact on almost everyone, but some have already been impacted on before, and that is a problem for some of my people in south Florida.

Mr. **Jacobs**. Well said.

Chairman **Pickle**. That completes the testimony for today. I want to thank all of those who appeared and made their statements, and we appreciate your forbearance and understanding our time constraints.

I wish to thank the members of the subcommittee who have been very loyal and attentive all through these hearings.

The hearings will resume Monday morning at 9 a.m.

During the coming week, there will be approximately 100 individuals or organizations who have asked to testify. Obviously, it will take dedication by the members of this committee and cooperation by those testifying.

The Chair wants to say in advance again that we will recognize these individuals for a 5-minute statement, and we will adhere to that very strictly in order to move forward and allow everyone to present their testimony.

The committee then will stand adjourned until Monday morning at 9 a.m.

[Whereupon, at 1:15 p.m., the subcommittee adjourned, to reconvene at 9 a.m., Monday, February 7, 1983.]

FINANCING PROBLEMS OF THE SOCIAL SECURITY SYSTEM

MONDAY, FEBRUARY 7, 1983

House of Representatives,
Committee on Ways and Means,
Subcommittee on Social Security,
Washington, D.C.

The subcommittee met at 9 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. J. J. Pickle (chairman of the subcommittee) presiding.

Chairman Pickle. The Chair will ask the subcommittee to come to order and ask our guests to take their seats.

Our first panel this morning will be composed of the Honorable Arthur Flemming, Stan Ross, and Milt Gwirtzman. Before they proceed we are going to hear testimony from Congressman Bill Young of Florida. Mr. Young was not able to be here Friday because he had changed his schedule because of the dates we had originally offered him. When we then had to alter our schedule, he had a series of speaking engagements in his district. In order to accommodate him due to the change of our own scheduling we will ask him to appear first, and we will ask the panel if they will accept that deviation.

We will therefore then hear from Congressman Bill Young first. We are pleased to have you, and recognize you for 5 minutes.

STATEMENT OF HON. C. W. BILL YOUNG, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. Young. Thank you very much for accommodating my scheduling problems. I have a lengthy statement which I will provide to the committee in writing and I will summarize the statement.

As soon as the recommendations of the National Commission on Social Security were made available, I went to my district in Florida along with Mr. Bob Myers, the Executive Director of the National Commission, where we held a number of public hearings. More than a thousand people attended my hearings and we explained as thoroughly as we could what the recommendations were.

The responses were very interesting. We heard from several hundred people who testified, and none liked the package entirely, which I am sure that you have heard many times and will continue to hear. As we listened to the questions of those testifying, there were two major points that came to my mind that have to be considered in making a decision on how I, as a Member of Congress, will vote on this package.

I have decided, Mr. Chairman, that the package must meet two criteria: No. 1, will it work, will it actually do what it is that we are here to accomplish? and No. 2, is it fair?

I have decided that I believe basically it is a fair plan. The fact that no one really likes it indicates that all segments of our society are going to be affected by it. In my county, there are 234,000 people getting social security checks every month, but I believe it does meet the standard of fairness.

I have a little more question about whether or not it is going to work, and I have an idea you will, too. As you go through your deliberations in this subcommittee I am satisfied you will focus your attention in that direction.

In preparing my remarks for the hearing, I went back to the December 15, 1977, Congressional Record and reviewed the debate that preceded the vote to raise the payroll taxes at that time. It is interesting to note that the debate surrounding that legislation is almost identical to the debate we have heard during the last few weeks regarding the Commission's recommendation. Also quite similar were the assurances that the passage of the legislation would ensure the long-term stability of the system. During that debate 6 years ago you said, Mr. Chairman:

> In passing this bill, we can say to the American people that we are putting social security on a sound financial basis for the next 25 to 50 years. Nothing can be more reassuring to the public than taking this strong action.

The distinguished chairman of the Ways and Means Committee at that time, Mr. Ullman, said:

> (This bill) puts us in a surplus posture in social security for the next 25 years.

Another distinguished former colleague, Mr. Joe Waggonner, who also served on the Social Security Commission, was more confident in the 1977 legislation. He said:

> It stabilizes the trust fund, because the actuary says the OASDI trust fund will be stabilized until the year 2030. The DI trust fund will be stabilized until the year 2007.

As President Carter signed the Social Security Act of 1977 he assured Americans that the system was on firm footing through the 21st century. His remarks were:

> Now this legislation will guarantee that from 1980 to the year 2030, the social security system will be sound.

I voted for that legislation. I was one of only three Republicans in the House who voted for it, because of my commitment to guarantee the security of the social security system. I am prepared to support this package if I can be convinced that it will work because I do believe that it is fair. But I must remain flexible to the point that I and my colleagues must be assured that it is in fact going to do the job that we have been told that it is going to do. I look forward to having the report of your committee, Mr. Chairman, to give us those assurances.

There are many other points I would like to make, but I realize that time is limited. In my prepared statement I go into those points. I can summarize it by saying I established two criteria for myself, "Will it work?" and "Is it fair?" I believe that it is fair. I am not convinced that it will work. If I can be convinced that it will work, I am prepared to support the program.

[The prepared statement follows:]

Statement of Hon. C. W. Bill Young, a Representative in Congress from the State of Florida

Mr. Chairman, thank you for allowing me to come before your subcommittee this morning to discuss the serious financial needs of the social security system and the remedies that have been suggested by President Reagan's National Commission on Social Security Reform. I want to commend you and the Chairman of the Ways and Means Committee for expediting the consideration of social security legislation because I believe this issue, which affects all Americans, will be one of the most important issues Congress considers this year.

There is no question as to the need for legislation to be enacted early in this session because the social security system faces severe funding problems in the coming months. The National Commission on Social Security Reform agreed that in the remainder of this decade, the system faces a deficit of between $150 and $200 billion. More alarming, however is the Social Security Administration's warnings that unless action is taken soon, the social security trust funds will be depleted sometime this summer.

This grave financial problem should not come as a surprise to the members of Congress who have been warned repeatedly of the approaching day of reckoning for the social security system. Just as our overall federal budget has fallen into disarray as a result of continued deficit spending, the social security system since 1975 has been paying out more in benefits than revenues it has collected. The cruel inflationary pressures of the 1970s, rising unemployment rates of this decade, and the changing age-mix of our nation's population have been major contributors to this problem.

Just as the financial problems of the federal budget parallel the problems of the social security system, both are greatly dependent on strong economic recovery to ensure financial solvency. In addition, the financial integrity of the social security system, and its $200 billion a year in benefit payments, is an integral part of our nation's economy.

The most equitable solution to the system's funding problems is one I have advocated for many years. It is simply to once and for all place our nation's economic house in order. The sorry state of the social security trust funds—and for that matter all federal retirement programs—is directly related to our nation's financial problems. Mainly responsible of our current state of affairs is the spend-free federal government, which has refused for too long now to approach the federal budget in a responsible manner. As a result, the financial problems we have incurred over the past few decades will take time to straighten out.

In the meantime, the social security system faces an immediate funding problem. President Reagan appointed in September 1981 a commission to study this problem and to recommend solutions. The National Commission on Social Security Reform is to be commended for its long hours of work and deliberation which proved successful in reaching a consensus package of recommendations for solving the system's short- and long-term financing problems. Based on its recommendations, the commission would distribute the burden of saving the system equally among all Americans. No one group is singled out to carry a disproportionate share of the cost.

In evaluating the commission's recommendations, I have used two criteria which must be met before I can support the commission's package. The first is—will it work and solve the system's serious financial problems? The second is—is it fair?

Based on hearings I held and letters I have received, I believe the commission's proposal is fair because all Americans share the burden imposed by these recommendations. However, it has not been proven to me that this proposal will work by providing the savings necessary to ensure the financial solvency of the system.

Two weeks ago, I sponsored three public hearings in Pinellas County, Florida that were attended by more than 1,000 people. Bob Myers, the national commission's executive director, was kind enough to travel with me to Florida to help explain the commission's recommendations at the hearings.

There was no better place in our country to hold these hearings, which were the first of their kind in the nation. With more than 230,000 county residents receiving social security checks each month totaling more than $1 billion a year, no county will be more affected by this year's social security debate.

In addition to receiving testimony from more than 100 people, I also polled those who attended the hearings to better gauge their feelings. From the results of the testimony and the questionnaries that were returned, it appears that almost everyone dislikes one section or another of the commission's report, but that most people, whether they are workers or self-employed paying into the system or retirees receiving benefits, are willing to make a personal sacrifice if it will ensure the solvency of the system. Therefore, I believe that the commission's recommendations are as fair as the present dilemma will permit and spread the burden among all groups.

Throughout the hearings, Mr. Myers and I stressed that the commission's recommendations in no way reduce the benefits of the people currently receiving social security checks.

It is interesting to note, however, that almost 60 percent of the people I polled, the majority of whom currently receive social security benefits, are willing to take a six-month delay in their cost of living payments. This is further proof that our nation's older Americans who built this country are willing to forego a portion of their earnings if it will guarantee the stability of the social security system.

A major concern about the commission's recommendation expressed by a large number of people was its proposal to bring all new federal employees into the system. While I understand that your committee does not have jurisdiction over the civil service retirement plan, it is important that reassurance be given all current federal workers and retirees that this provision will not adversely affect their retirement program.

Another commission recommendation I would like to briefly comment upon concerns removing social security from the unified budget. I strongly support this recommendation. The trust funds should never have been placed under the unified budget in the first place. The social security system operates independently from the general fund by collecting its own revenues and dispersing its own payments. Separation of the social security trust funds from the unified budget would alleviate the continuing fear of older Americans that the federal government is trying to balance the overall federal budget at the expense of the social security system.

My second criteria for evaluating the commission's package—will the recommendations indeed solve the social security trust fund's projected short falls throughout this decade and the next 75 years—remains unanswered and should be of great concern to my colleagues. This is where I believe, Mr. Chairman, your subcommittee and the actuaries of the Social Security Administration are responsible for assuring us that the commission's proposal will indeed be enough to sustain the program well into the next century. Each member of Congress must know for sure whether this package of recommendations is just another band-aid approach to tide the system over, or if it will indeed do all that is expected.

Mr. Myers and I discussed this question at length during my hearings, and neither of us is fully convinced that the package will provide enough revenues, especially during the middle of this decade, to prevent the trust fund ratios from again falling dangerously low.

Six years ago, Congress was in a similar situation with regard to the social security system. The trust funds were almost depleted and a major payroll tax increase was proposed to generate enough revenues to continue paying benefits. In preparing for today's hearing, I went back to the December 15, 1977 Congressional Record and reviewed the debate that preceded the vote to raise payroll taxes. It is interesting to note that the debate which surrounded that legislation is almost identical to the debate I have heard during the last few weeks regarding the commission's recommendations. Also quite similar were the assurances that the passage of the legislation would ensure the long-term stability of the system.

During that debate six years ago, you, Mr. Chairman, assured us that, in your words: "In passing this bill, we can say to the American people that we are putting social security on a sound financial basis for the next 25 to 50 years. Nothing can be more reassuring to the public than taking this strong action."

The distinguished Chairman of the Ways and Means Committee at that time, Mr. Ullman, also made assurances to us when he said: "(This bill) puts us in a surplus posture in social security for the next 25 years."

Another distinguished former colleague of ours, Mr. Waggonner, who was appointed to the social security commission and supports its recommendations, was even more confident in the 1977 legislation. He said: "It stabilizes the trust fund, because the actuary says the OASDI trust fund will be stabilized until the year 2030. The DI trust fund will be stabilized until the year 2007, and the combined trust fund will be stabilized until the year 2027."

Finally, President Carter, during the ceremonial signing of the 1977 social security act, assured all Americans that the system was on firm footing into the 21st century. His remarks were: "Now this legislation will guarantee that from 1980 to the year 2030, the social security system will be sound."

It was only after assurances such as these that I voted for the 1977 legislation, and I might note, was one of only three Republicans to do so.

Six years later, I find myself in a position where I am again being asked to support social security legislation, which includes major payroll tax increases, that I am told will ensure the financial solvency of the system for 75 years. This time, the Congress owes the American people a more thorough evaluation of the commission's economic assumptions.

If we take time to examine the reports of the Social Security Board of Trustees for the past three years, it is apparent that the trustees' pessimistic economic assumptions have been a better predictor of the economy and have proven to be closer to actual economic performance than the more optimistic intermediate II-B assumptions.

In preparing its recommendations, the social security commission used economic assumptions somewhere between the intermeidate II-B and pessimistic III figures to arrive at the estimated $150 to $200 billion shortfall. The commission's final package, it is estimated, will save the system $168 billion.

Mr. Chairman, before finalizing the social security legislation this year, it is my hope that you and the members of your committee will examine closely the commission's recommendations based on the economic forecasts for the decade to ensure that enough savings are provided. If we err with this social security legislation, let us err by providing too much in additional trust fund reserves instead of providing too little.

By law, the Social Security Board of Trustees is to make available April 1, its report for 1983. I urge you to work with the trustees to expedite this process so the report and accompanying economic assumptions are ready within the next few weeks so that the members of Congress will have the information available to determine whether or not the commission's recommendations will indeed solve the funding problems facing the social security trust funds.

The American people are rapidly losing faith in the social security system. The failure of the 1977 legislation to correct the system's funding problems had a major effect on those views. Recent public opinion surveys show that fewer and fewer workers now paying into the system believe they will ever collect benefits when they retire. And a major overriding concern of the people who attended my hearings, regardless of their opinion about the commission's recommendations, was that the social security system is going bankrupt and that their future benefits are in jeopardy. Passage of inadequate legislation this year will totally dissolve any confidence the American people have in the social security program.

We need to do a better job this year in preparing legislation which will once and for all solve the system's financial shortfalls. Based on the response from the people I represent, I am prepared to support the commission's recommendations because the burden of saving the system is being shared equally by all Americans. However, I must reserve a final commitment to this plan until your legislation is finalized and I can be firmly convinced that the legislation will work by providing adequate trust fund reserves to guarantee the integrity of the social security system for generations to come. What is at stake here is not only the soundness of the social security trust funds, but also the trust and confidence of the American people.

Thank you again, Mr. Chairman, for allowing me to come before your committee, and I anxiously await your legislative package and the forthcoming social security trustees report.

Chairman PICKLE. I thank you, Mr. Young. Your criteria are reasonable. We hope we can have more correctness about our estimates on this legislation. Thank goodness we did pass the 1977 act. What has happened has been primarily economy, but we must measure the various criteria in this bill with the utmost care. I think your caution to us is well stated, and we appreciate your testimony.

Does any member of the subcommittee have questions?

We thank you for your testimony. Your entire statement will be a part of the record.

Mr. YOUNG. Thank you very much, sir.

Chairman Pickle. Now the Chair will ask Mr. Flemming, Mr. Ross, and Mr. Gwirtzman to come to the witness table if they will.

Mr. Flemming, Mr. Arthur Flemming, is former Secretary, Department of HEW, one of the most distinguished men in America, who worked primarily in the field of analysis and legislation and recommendations for the elderly. He is going to be our first witness, followed by Mr. Stanford Ross, a former Commissioner of Social Security whom we have worked with and whose talent and whose dedication to the program we greatly appreciate and whose leadership we appreciate. Then Mr. Milton Gwirtzman, who is former chairman of the National Commission on Social Security. We are pleased to have you here, Mr. Gwirtzman.

I ask that Mr. Flemming start, but before we proceed let me lay out to you gentleman and to others who will follow you that this week we have approximately 100 individuals representing many organizations in most instances who will testify before this subcommittee. It is necessary that we proceed on time and steadily on schedule. We, therefore, have adopted a rule that we are going to allow each individual to have his entire statement, his or her statement, put in the record, and we are asking each one of you to summarize within the 5-minute confines, the essence of your testimony.

I assure you your testimony will be read and studied. We want your position. We cannot give individuals a long, lengthy discussion simply because of numbers we have. We must be finished this week. So we are going to ask each one of you to help us as we proceed to stay on schedule, and I would ask then that you summarize your statement within the 5-minute period.

We are going to ask when you start, you will see a caution light, which means 4 minutes, and that means you can proceed at full speed for another minute, and then the Chair will try and recognize that time limitation at that point.

Mr. Flemming, we are pleased to have you, because you are a distinguished gentleman. I wish I could give you an hour, each one of you, but under the circumstances we must proceed on the time schedule.

STATEMENT OF HON. ARTHUR S. FLEMMING, FORMER SECRETARY OF HEALTH, EDUCATION, AND WELFARE, ON BEHALF OF SAVE OUR SECURITY COALITION

Mr. Flemming. Mr. Chairman and members of the subcommittee, I do have a statement which I will submit for the record. I appreciate this opportunity to appear here today on behalf of the Save our Security Coalition to share our views with you on the recommendations of the National Commission on Social Security Reform. It had been my hope that I could appear here today jointly with my colleague, Wilbur Cohen, who is chairman of this coalition, another former HEW Secretary. Unfortunately, Secretary Cohen's teaching schedule did not permit his presence. While I appear alone, I hope the record will reflect that Secretary Cohen and I hold common views on how to meet the financial problems of social security. On behalf of the Save our Security——

Chairman Pickle. Let me interrupt to say that we stay in constant touch with Dr. Cohen. We know that he is in general support of this package. He is in my hometown city at the University of Texas, and I could not avoid him if I wanted to, but I do not, because he made a great contribution to this program, perhaps as much as anybody in America. Proceed. I am sorry.

Mr. FLEMMING. On behalf of the Save our Security Coalition, I want to express this organization's support for the agreement reached by the National Commission on Social Security Reform. We recommend its adoption.

Let me make two important points in this regard. First, in taking this position we want to make clear that we believe inclusion of the cost-of-living adjustment delay means that the beneficiaries of social security will pay a high price for what is in the compromise package. If there are any changes inserted into this agreement which in any way further cut back on basic social security benefits, we would have to reassess our position. Second, the coalition is both large and diverse. There are a few organizations which, while members of the coalition, do not support passage of the compromise package as presently constituted. These groups will be making their views known to the Congress directly.

One of the most troublesome provisions in the Commission's report deals with the 6 months' delay in the cost-of-living adjustment for the recipients of the old age, survivors, and disability insurance benefits. We recognize that some members of the Commission went along with this delay in the COLA only with the greatest reluctance. We share that reluctance. We accept the Commission's COLA recommendation because we believe that other portions of the compromise have so much merit.

However, in adopting this provision we believe the Congress should recognize the serious problems confronting SSI recipients. Supplemental security income is the basic safety net for the aged poor, the blind, and the disabled. We applaud the inclusion in the agreement of a recommendation for raising the disregard under SSI from $20 to $50. We also strongly recommend as a matter of fairness that contrary to the recommendations in the administration's budget, the cost-of-living adjustment for July 1983 be retained for SSI and food stamp recipients. SSI recipients would then receive another COLA adjustment in January 1984, as would all OASDI beneficiaries, because of the importance of keeping the two programs in tandem. We recommend that the income threshold for SSI be raised at least to the poverty level, and that at some time in the future consideration be given to bringing this benefit up to the level of 125 percent of the poverty level.

With respect to SSI, we all know there is a considerable number of social security recipients who qualify for but who do not receive SSI benefits. We are convinced that many social security beneficiaries are completely unaware that their income is so meager that they can qualify.

We in SOS believe that the Secretary of Health and Human Services should be required by law to issue a notice periodically to all individuals whose OASDI benefits do not exceed the SSI benefit level plus the SSI unearned income disregard calling their attention to the availability of SSI . We also believe that there should be inaugurated a new SSI alert. While serving as Commissioner on Aging I worked with many public and private organizations in carrying out such an alert at the beginning of the program. It worked then; it can work now. It was needed then, it is even more essential today.

We also urge that the 3-percent trigger in the cost-of-living adjustment for social security and SSI—the provision of present law which says that no cost-of-living adjustment will be paid if the increase in the Consumer Price Index is less than 3 percent—be suspended for 1984.

Another issue which gave us problems in the coalition involves the recommendation that social security coverage be extended to new Federal and postal employees effective January 1, 1984. We believe that such a proposal should not be implemented until representatives of Federal and postal employees have had an adequate opportunity to review and comment on specific proposals to adapt Federal retirement systems as appropriate supplementary programs for future service in the light of proposed social security coverage. And as of this date, no such specifics have been forthcoming.

We believe that any such changes must not result in a loss of protection, but must provide a two-tiered system which will guarantee Federal employees a benefit package at least equal to what they now receive in retirement, disability, and death benefits.

The effective date for bringing Federal employees under social security and for the implementation of any change in the Federal retirement system should be the same.

Although the Commission reached agreement on a package proposal to deal with the short-range financial needs of social security and two-thirds of the long-range problem, it could not agree on how to deal with the remaining one-third of the long-term problem. Members of the Commission did agree, however, to make separate recommendations dealing with the rest of the long-range financing need.

Some of the Commission members suggested that the best way to deal with the remaining long-range financing would be by increasing the retirement age to 66 and indexing it to longevity. The SOS coalition flatly rejects such a course. To change the retirement age would be unfair to today's workers. We would be asking them to work longer for what would be in the end lower benefits, and we believe this would be a violation of the implicit compact which has existed between the Government and working men and women for half a century.

Other Commissioners recommended increasing payroll taxes in 2010, with a refundable income tax credit so that this would have a neutral impact on the total tax burden of workers. We can support this approach.

There is another approach which has significant support within SOS. That is for the Congress not to deal this year with the remaining one-third of the long-term deficit which will remain after the Commission's agreed-upon recommendations are enacted. Instead, Congress could recommend that the next statutory advisory council on social security be charged with making recommendations with respect to the remaining part of the long-term problem.

In my testimony I have listed 12 recommendations which have been recommended unanimously by the Commission and have been endorsed by the SOS. I will not identify those in connection with this oral presentation. Again, Mr. Chairman, in behalf of SOS, in spite of the reservations that many of us have, I urge the Congress to accept the recommendations of the Commission.

[The prepared statement follows:]

STATEMENT OF HON. ARTHUR S. FLEMMING, ON BEHALF OF THE SAVE OUR SECURITY COALITION

Mr. Chairman and members of the subcommittee.

I appreciate this opportunity to appear here today on behalf of the Save Our Security Coalition, to share our views with you on the recommendations of the National Commission on Social Security Reform.

My name is Arthur S. Flemming. I had the high privilege of serving as Secretary of Health, Education, and Welfare during the Administration of President Eisenhower, and as U.S. Commissioner on Aging under Presidents Nixon, Ford, and Carter. It had been my hope that I could appear here today jointly with my good friend and colleague, Wilbur J. Cohen, another former HEW Secretary who served in President Johnson's Administration. Unfortunately, Secretary Cohen's teaching schedule just did not permit his presence. But while I appear alone, I hope the record will reflect that Secretary Cohen and I hold common views on how to meet the financial problems of Social Security.

Beyond that, Mr. Chairman, the views which are expressed are also shared by three former Commissioners of Social Security—William J. Driver, who held that post under President Carter; Robert M. Ball, who served during the Administrations of Presidents Kennedy, Johnson, and Nixon; and Charles J. Schottland, who served during the Eisenhower Administration; by two former Commissioners on Aging—John B Martin, who served in the Nixon Administration, and William Bechill, who served in the Kennedy Administration; and by Nelson Cruikshank, former Counselor to the President for Aging under President Carter.

Together we cover a long, bipartisan span of presidencies, and together we stand united in our views on the Commission report.

Save Our Security is chaired by Secretary Cohen, and I chair its advisory Committee. SOS is a nationwide coalition of more than 140 organizations representing a cross-section of American life. I am attaching a list of the affiliated organizations to give you the full flavor of the coalition. There are organizations representing the elderly and the disabled, trade unions representing workers in the public and private sector, social welfare groups, women's groups, civil rights groups and religious organizations. Together, these affiliated organizations have a membership of between 35 and 40 million adult Americans, almost equally divided between beneficiaries of, and contributors to, Social Security.

This is a point which simply cannot be stated clearly enough. Within Save Our Security we have bridged the socalled "generation gap." We have working men and women concerned, not only about there own future protections under Social Security, but also the protection of their retired parents and their grandparents. And we have older Americans who are concerned not only about their own economic well-being, but that of their children and grandchildren as well. Both groups—the beneficiaries and the contributors—want to see Social Security's short-term cash-flow problems solved, and they want to see the long-term problems resolved to guarantee the benefits which today's workers are earning through their work and their contributions into this system.

On behalf of Save Our Security, I want to express this organization's support for the agreement reached by the National Commission on Social Security Reform and we recommend its adoption.

Let me make two important points in this regard:

First, in taking this position, we want to make clear that we believe inclusion of the COLA delay means that the beneficiaries of Social Security will pay a high price for what is in the compromise package. If there are any changes inserted into this agreement which in any way further cut back on basic Social Security benefits, we would have to reassess our position.

Second, the coalition is both large and diverse. There are a few organizations which, while members of SOS, do not support passage of the compromise package as presently constituted. These groups will be making their views known to the Congress directly.

As indicated, one of the most troublesome provisions in the Commission's report deals with the six-month delay in the cost-of-living adjustment for the recipients of Old Age, Survivors' and Disability Insurance benefits.

We recognize that some members of the Commission went along with this delay in the COLA only with the greatest reluctance. We share that reluctance. We wish the Commission could have found some other way to deal with the financial problems of Social Security. In his State of the Union message, the President placed the blame for these problems squarely on the shoulders of our national economy—the long inflationary spiral pushed up outlays to help beneficiaries keep their heads above water; and persistent high unemployment has pushed down income, because when people aren't working, neither they nor their employers are paying into the system. It is unfortunate that the aged, the blind, the disabled and their dependents have to take a reduction in their standard of living, to put to right a situation which is not of their making.

But—reluctantly, as I have said—we accept the Commission's COLA recommendation because we believe that other portions of the compromise have so much merit. However, in adopting this provision, we believe Congress should go further than the Commission in recognizing the serious problem confronting SSI recipients. We applaud the inclusion in the agreement of a recommendation for raising the disregard from $20 to $50.

Supplemental Security Income is the basic safety net for the aged poor, the blind and the disabled. We strongly recommend, as a matter of fairness, that, contrary to the recommendations in the Administration's budget, the cost-of-living adjustment for July 1983 be retained for SSI and Food Stamp recipients. SSI recipients would then receive another COLA adjustment in January 1984—as would all OASDI beneficiaries—because of the importance of keeping the two programs in tandem.

We also recommend that the income threshold for SSI be raised at least to the poverty level, and that at some time in the not-too-distant future, consideration be given to bringing this benefit up to a level of 125 percent of the poverty level.

With respect to SSI, we all know that there is a considerable number of Social Security recipients who qualify for, but do not receive, SSI benefits. For some it is a matter of dignity and pride. They know that the benefits are available, but they choose not to submit to the means test which is required for eligibility. But we are convinced that many Social Security beneficiaries are completely unaware that their income is so meager that they could qualify.

We in SOS believe that the Secretary of Health and Human Services should be required by law to issue a notice periodically to all individuals whose OASDI benefits do not exceed the SSI benefit level plus the SSI unearned income disregard. Such notice should state that they may be eligible to receive SSI benefits to supplement their other income. The notice should also encourage the person to contact his or her local Social Security office for additional information. The Secretary should also be required to take the steps necessary to insure that these individuals be fully assisted in filing an SSI application. While serving as Commissioner on Aging, we worked with many public and private organizations in carrying out an "SSI Alert" at the beginning of the program. It worked then; it can work now. It was needed then; it is even more essential today.

We also urge that the 3 percent trigger in the cost-of-living adjustment for Social Security and SSI—the provision of present law which says that no COLA will be paid if the increase in the Consumer Price Index is less than 3 percent—be suspended for 1984. Since we began indexing Social Security and SSI benefits, there has never been a year when the CPI rose less than 3 percent. But inflation has moderated, and we hope it will continue to moderate. A delay in the COLA could result in a comparison between the first quarter of last year and the first quarter of this year showing less than a 3 percent inflationary growth. Nevertheless, it still seems to us important that, because of the COLA delay in this year of transition, benfits be increased by whatever amount the inflation rate is.

Another issue which gave us problems in the coalition involves the recommendation that Social Security coverage be extended to new Federal and postal employees, effective January 1, 1984.

We believe that such a proposal should not be implemented until representatives of Federal and postal employees have had an adequate opportunity to review and comment on specific proposals to adapt Federal retirement systems as appropriate supplementary programs for future service in the light of proposed Social Security coverage—and, as of this date, no such specifics have been forthcoming. Such changes may be complex and difficult for many particpants to comprehend.

Further, we believe that any such changes must not result in a loss of protection, but must provide a two-tier system which will guarantee Federal employees a benefit package at least equal to what they now receive in retirement, disability and death benefits.

The date for making any such changes should not be determined on the basis of any increased revenue to the Social Security system, but solely on the appropriateness and fairness of the proposed changes in financing and benefits in both systems. Furthermore, we believe that the effective date for bringing Federal employees under Social Security and for the implementation of any change in the Federal retirement system should be the same.[1]

We recognize, Mr. Chairman, that the Committee on Ways and Means does not have jurisdiction over the development of legislation dealing with the Federal retirement system. But in view of the fact that you will be taking actions with respect to bringing new Federal and postal employees under Social Security, we urge you to find the way of insuring that any action you take relative to the coverage of new Federal and postal employees under Social Security not be effective until Congress has also enacted the new Federal retirement program.

Although the Commission reached agreement on a package proposal to deal with the short-range financial needs of Social Security and two-thirds of the long-range problem, it could not agree on how to deal with the remaining one-third of the long-term problem. Members of the Commission did agree, however, to make separate recommendations dealing with the rest of the long-range financing needs.

Some of the Commission members suggested that the vest way to deal with the remaining long-range problem, it could not agree on how to deal with the remaining one-third of the long-term problem. Members of the Commission did agree, however, to make separate recommendations dealing with the rest of the long-range financing needs.

Some of the Commission members suggested that the best way to deal with the remaining long-range financing would be by increasing the retirement age to 66 and indexing it to longevity.

The SOS coalition flatly rejects such a course. To change the retirement age would be unfair to today's workers. We would be asking them to work longer for what would be, in the end, lower benefits, and we believe this would be a violation of the implicit compact which has existed between the government and working men and women for nearly half a century.

Other Commissioners recommended increasing payroll taxes in 2010, with a refundable income tax credit so that this would have a neutral impact on the total tax burden of workers. We can support this approach.

There are other possible solutions which most in SOS could support.

We could eliminate the maximum earnings base for employers, so that they would be paying Social Security taxes on their entire payroll;

We could use general revenues to make up any shortfall; or

We could use a combination of any of these methods to meet any situation which might occur sometime in the far distant future.

There is another approach which has significant support within SOS. That is for the Congress not to deal this year with the remaining one-third of the long-term deficit which will remain after the Commission's agreed-upon recommendations are enacted. Instead, Congress could recommend that the next statutory Advisory Council on Social Security be charged with making recommendations with respect to the remaining part of the long-term problem, taking into account better economic conditions, increases in productivity, the birth rate, the immigration rate, and all of the other variables which contribute to the stability, or lack of stability, of the Social Security system.

I have devoted considerable time, Mr. Chairman, to the parts of the Commission's report which gave us, in Save Our Security, difficulty. Let me provide some balance by listing for you those recommendations with which we had no difficulty in endorsing unanimously:

1. Raising from 3 percent to 8 percent the additional retirement benefits for each year, after age 65, in which a person continues to work.
2. Raising from $20 to $50 per month the OASDI disregard in computing SSI eligibility and benefits.
3. Extension of compulsory coverage to non-profit organizations.
4. Repealing the provision which presently allows State and local governments to opt out. (We would hope that Congress would go to a step further, and give those State and local governments which have opted out in the past a one-time chance to rejoin the Social Security program.)

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[1] Mr. Ball feels that this is highly desireable, but not a necessary condition to the inclusion of new Federal employees on Jan. 1, 1984.

5. The annual rollover of Social Security investments, so that this program earns the maximum interest possible on the funds it has invested in securities of the United States.

6. Adding two outside persons (no more than one from any political party) to the Board of Trustees, to help restore public confidence in the management of this program.

7. Establishing the Social Security Administration and HCFA as an independent agency. (The Commission endorsed this idea in principle, but a majority of members favored a study of its feasibility. We do not believe a study is necessary and we hope the Congress will move forward with legislation to achieve this goal, under a bipartisan board, as quickly as possible.)

8. The four gender-related provisions to liberalize the way in which we treat women under Social Security. (The report makes specific reference to the issue of income sharing for Social Security purposes. We note with approval the views expressed by Commissioners Ball, Keys, Kirkland, Moynihan and Pepper on this issue. We urge you to direct the Social Security Administration to continue studies already under way on this matter and to report back, within a year, specific recommendations with respect to the recommendations of these five Commissioners.)

9. Crediting the Trust Funds for past military service credits and unchashed checks.

10. Reallocating of payroll tax receipts more equitably between the Old Age and Survivors' Insurance Trust Fund and the Disability Insurance Trust Fund.

11. Continuing the authority for interfund borrowing through 1987.

12. Eliminating the "windfall" benefit for future beneficiaries who are eligible for pensions from non-covered Social Security employment.

Most importantly, Mr. Chairman, we in SOS support the Commission recommendation that Social Security be removed from the unified budget and restored to the independent status it enjoyed for its first nearly 35 years.

We also commend the Commission for its conclusion that there should be no tampering with the basic structure of Social Security—that it not be made voluntary, that it not be conditioned on a showing of financial need, and that it not be based exclusively on contributions paid.

The National Commission on Social Security Reform had a difficult—some thought impossible—assignment. To its credit it came up with a workable solution. Not a perfect one, not one which satisfied everyone (or perhaps anyone), but a solution with which beneficiaries and contributors can live.

In conclusion, let me emphasize again the Save Our Security coalition's support for the Commission's recommendations.

I thank the Chairman and the members of the Subcommittee for this opportunity to present our views, and I wish you every success in your deliberations.

[Attachment]

AFFILIATED ORGANIZATIONS

A. Philip Randolph Institute.
Action Alliance of Senior Citizens of Greater Philadelphia (PA).
Advocates for the Handicapped.
Alton-Wood River (IL) Federation of Labor.
American Association of Homes for the Aging.
American Association of Retired Persons.
American Association of University Professors.
American Association of University Women.
American Association on Mental Deficiency.
American Coalition for Citizens with Disabilities.
American Council of the Blind.
American Ethical Union.
American Federation of Labor/Congress of Industrial Organizations.
American Federation of State, County and Municipal Employees.
American Foundation for the Blind.
American Jewish Committee.
American Veterans Committee.
Americans for Democratic Action.
Armstrong, Clarion Counties (PA) Central Labor Union Council.
Associated Actors and Artistes of America.
Association for Retarded Citizens.
Bakers, Confectionery and Tobacco Workers International Union.

Cattaraugus-Allegheny Counties (NY) Central Labor Council.
Center for Community Change.
Center for Independent Living.
Central Labor Union of Erie County (PA).
Central Maine Area Agency on Aging.
Central Ohio Council of Senior Citizens.
Cincinnati (OH) AFL-CIO Council.
Communications Workers of America.
Community Council of Greater New York.
Concerned Seniors for Better Government.
Congress of Senior Citizens of New York.
Connecticut State AFL-CIO.
Council of State Administrators of Vocational Rehabilitation.
Democractic Socialist Organizing Committee.
Disabilities Plus, Ink.
Disabled American Veterans.
Disabled in Action of Pennsylvania.
Dunn County (WI) Central Labor Council.
Economic Opportunity Commission.
Edwardsville (IL) Central Trades and Labor Council.
Federation of Senior Citizen Clubs and Organizations.
Food Research and Action Center.
Fund to Assure and Independent Retirement.
Graham-Greenlee Union Club of Clifton (AZ).
Gray Panthers.
Highland Valley (MA) Elder Service, Inc.
International Association of Bridge, Structural and Iron Workers.
International Association of Machinists and Aerospace Workers.
International Chemical Workers Union.
International Ladies' Garment Workers' Union.
International Union of Operating Engineers.
Joseph P. Kennedy, Jr., Foundation.
Leadership Conference of Women Religious.
Legal Research and Services for the Elderly.
Massachusetts Association of Home Center Corporations and Area Agencies on Aging.
Massachusetts Organization of Disabled Workers.
Mechanics Educational Society.
Metal Trades Department, AFL-CIO.
Metropolitan Baltimore Council of AFL-CIO Unions.
Metropolitan N.Y. Coordinating Council of Jewish Poverty.
Monmouth County (NJ) Office of the Handicapped.
Montana State AFL-CIO.
Muskegon (MI) Labor Council.
National Association for Human Development.
National Association for the Advance of Colored People.
National Association of Private Residential Facilities for the Mentally Retarded.
National Association of Retired Federal Employees.
National Association of State Universities and Land Grant Colleges.
National Black Catholic Lay Caucus.
National Board of the YWCA.
National Caucus and Center on Black Aged.
National Center for Urban Ethnic Affairs.
National Coalition for Older Women's Issues.
National Conference of Catholic Charities.
National Consumers League.
National Council of Catholic Women.
National Council of Churches.
National Council of Jewish Women.
National Council of La Raza.
National Council of Negro Women.
National Council of Senior Citizens.
National Council on the Aging.
National Education Association.
National Farmers Union.
National Indian Council on Aging.
National Multiple Sclerosis Society.

National Organization of Social Security Claimants Representatives.
National Senior Citizens Law Center.
National Society for Autistic Children.
National Urban Coalition.
National Urban League.
National Women's Political Caucus.
New Hampshire Association for the Elderly.
New Horizons.
Ohio Coalition of Senior Citizen Organizations.
Ohio Rehabilitation Services Commission.
Older Women's League.
Operation Overcome of Lackawanna County (PA).
Operation Overcome of the Anthracite Region (PA).
Operation Overcome of the Lehigh Valley (PA).
Oswego County (NY) Labor Council.
Ozaukee County (WI) Trades and Labor Council.
Paralyzed Veterans of America.
Pennsylvania Alliance of the Physically Handicapped.
People United for Self Help.
Power, Inc.
Retired Teachers Chapter, United Federation of Teachers.
Retirees Union Club of Sierra Vista (AZ).
San Joaquin and Calaveras Counties (CA) Central Labor Council.
San Mateo County (CA) Central Labor Council.
Save Our Childrens' Security.
Secure Our Children.
Senior Citizens Task Force/United Planning Organization.
Seniors for Adequate Social Security.
Southeastern Oregon Central Labor Council.
Student Services for the Handicapped.
Texas Planning Council for Developmental Disabilities.
Texas State AFL-CIO.
The Workmen's Circle.
UAW Retired and Older Workers Department.
Union Club of Cottonwood/Verde Valley (AZ).
Union Club of Sun City (AZ).
United Association of Journeymen & Apprentices of the Plumbing and Pipefitting Industry.
United Automobile, Aerospace and Agricultural Implement Workers of America Internatonal Union.
United Cerebral Palsy Associations.
United Furniture Workers of America.
United Presbyterian Church.
United States Catholic Conference.
United Steelworkers of America.
University of the District of Columbia/Institute of Gerentology.
Washington Armed Services Committee.
Washington State Labor Council, AFL-CIO.
Waukesha County (WI) Central Labor Council.
West Virginia Developmental Disability Planning Council.
Western Gerontological Society.
Westside Community for Independent Living.
Wisconsin Council on Developmental Disabilities.
Women's Equity Action League.

Chairman PICKLE. Thank you, Mr. Flemming, and we note the items you have listed, which you do find agreement with us. We appreciate your testimony. We also note that you say social security should be removed from the unified budget, and that it not be made voluntary in any respect. We appreciate your testimony.

Now the Chair recognizes Mr. Stan Ross.

STATEMENT OF STANFORD G. ROSS, FORMER COMMISSIONER OF SOCIAL SECURITY

Mr. Ross. Thank you, Mr. Chairman. It is a great pleasure to be back here before you again. I submit, as you suggested, my statement for the record and I will just briefly summarize the main points I would urge on you. I would note at the beginning that I am here in my individual capacity, which makes it easier for me to state very candidly what my views are. I do not represent any organizations or coalitions of people who are interested in this legislation.

First of all, I basically support the recommendations of the bipartisan Commission. I think we have to respect the outcome of a group of serious people who have labored long and hard to try to come up with a solution to a very difficult problem. But at the same time that I support these recommendations, I would urge on the subcommittee seeing if they can improve them in some respects. And even recognizing that it may be difficult to change even a little bit, I would urge the committee to explore, debate, consider and try to do it.

The reason I would like you to try to do it even if you can't succeed, is I think the American public needs some education about the limitations of the recommendations of the Commission. I think there is too much of a sense that if this is passed, everything will be fine. Everything will not be fine. This isn't that kind of a progam.

Social security is going to require constant attention and it is important for the public to get more of the idea of the limitations of what is being done at the same time that we can all applaud the very great gains that would be made by some legislation to meet the short term crisis.

Specifically, the things I would like to see done, even though I am not hopeful they can be, are some structural changes in social security. I would like you to consider introducing earnings sharing and I would also like you to consider eliminating the earnings test. I think these are two changes that would do a great deal to make more equitable the structure.

I propose to pay for the costs of doing these things by some shifting of the payroll tax from under the HI trust fund to the cash payment funds. My reason for this is that you have got to deal with the medicare problem and the HI trust fund questions at any rate some time in the next several years, and my guess is that you will decide that the payroll tax is not the correct support for all of those changes.

Therefore, I would do the cash payment funds now and draw upon the HI payroll taxes as a way of paying for the equitable changes I would like to see made now. I would also strongly urge that you do not include in your package taking social security out of the Federal budget. I think the program is just too large and too important to give people the idea that it can ever be simply put aside.

To me what keeps the social security system strong is the constant attention and the commitment of whomever the President is and whomever the Congress is at the time. The basic strength of social security must be in the integrity of the political process. Only if you are constantly willing to pay attention to it and fix it and adapt it as society changes will social security be sound.

The trust fund idea is an accounting device. Social security's great strengths are its dedicated tax source and the very special mythology that surrounds it which makes it so acceptable to the people of the country. Those things will not sustain it unless the political system keeps watching over it. Therefore, I would urge you to not make such a change that seems to take it and put it to the side and say everything is fine.

I would support the idea of an independent agency. I think SSA being submerged in HEW has caused a great deal of problems. But there again, I would have it headed by somebody appointed by the President, confirmed by the Senate, and who can be strictly accountable to the Congress.

The red light is on, so I will stop there, Mr. Chairman. I thank you for the chance to express my views.

[The prepared statement follows:]

STATEMENT OF STANFORD G. ROSS, WASHINGTON, D.C.

Mr. Chairman and members of the Committee, I am pleased to have the opportunity to appear before you to address the important issue of Social Security reform. My name is Stanford G. Ross and I am a partner in the law firm of Arnold & Porter, Washington, D.C. I am also Last-Retiring Chairman of the Committee on Social Security and Payroll Tax Problems of the Section on Taxation of the American Bar Association. I served as Commissioner of Social Security during 1978 to 1979 and was the first Chairman, before my appointment as Commissioner, of the 1979 Advisory Council on Social Security. I have also served in the government as a White House Staff Assistant (1967-1968), General Counsel of the Department of Transportation (1968-1969), and an Assistant Tax Legislative Counsel of the Treasury Department (1967-1963). I am appearing today in my individual capacity to present my own views as to the public interest.

SUMMARY OF POSITION

As explained in greater detail below, I have four basic points.

1. I support enactment of legislation to carry out the recommendations of the National Commission on Social Security Reform. These recommendations reflect the hard work of serious people over a prolonged period and we must all respect the outcome.

2. I would, however, encourage this Subcommittee to develop a series of amendments which would improve the legislation. Hopefully, some will be acceptable. It is quite possible, however, that none of these amendments would ultimately be enacted because of their possible imbalancing of the fragile compromise reflected in the recommendations of the National Commission. Nevertheless, it would still be beneficial to have these amendments developed in order to educate the public as to what is—and what is not—being accomplished in the legislation.

3. The specific areas in which I propose amendment are to provide greater equity among beneficiares, especially women; to provide more flexibility in retirement alternatives; to develop more equitable taxing provisions; to improve administration of all income security programs, including Social Security; and finally to stimulate development in other major related areas such as medicare, private pensions and individual savings. In sum, I would encourage enactment of as comprehensive a reform package as it is politically possible to achieve at this time.

4. Finally, I would encoruage the Subcommittee as they enact legislation to be cognizant of the need to educate the public as to the realities of the Social Security system and to avoid to the maximum extent possible perpetuating the myths that make enlightened reform of this system so difficult to achieve. It is every bit as important in the long run to provide the public with greater understanding of the limitations of the Social Security system as it is to meet the immediate short-term crisis and to strengthen the system.

SUPPORT FOR THE RECOMMENDATIONS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

The recommendations of the National Commission are a heavily negotiated package of tax increases and benefit reductions. They reflect the hard work of a group of serious people over a prolonged period and we must all respect the outcome. As will be discussed below, from my vantage point it would be preferable to carry some of the proposed recommendations further and to provide more comprehensive solutions to some of the problems that are only marginally addressed. On the other hand, there is already much in the package that people of different persuasions do not agree with and it is likely that any attempt to deviate substantially from the package will lead to opposition which may endanger its enactment. Since enactment is so much in the public interest, I would in the final analysis support enactment of the recommendations as such and would assume that imprefect aspects could be improved upon in future years.

I would note that the kind of compromises reached by the National Commission might well have been reached in the last session of Congress had the Reagan Administration cooperated with the work of this Subcommittee. This Subcommittee was well along in the process of constructing a bipartisan set of reforms when the Reagan Administration, in May 1981, made its own proposals which relied heavily on short- and long-term benefit cuts and did not reflect an attempt to produce a balanced package or to compromise conflicting viewpoints. The result was to undermine the work of this Subcommittee and to lead to a polarization of views within the Congress and within the public at large. As a result, the Reagan Administration appointed the National Commission in December 1981 to report after the elections in November 1982. Until the last few weeks, a bipartisan compromise did not appear achievable. Now that it has happened, it is worthy of support, just as a bill that had been constructed in 1981 by this Subcommittee on a bipartisan basis would have been worthy of support.

Social Security is too major and fundamental a social institution in this country to be manipulated for partisan political purposes. The 36 million current recipients of benefits and the 116 million current payors of the payroll tax who will become future beneficiaries, all have too large a stake in the integrity and credibility of the Social Security system. It is clear that there is a short-term problem which requires through a combination of tax increases and benefit cuts coverage of some $150 to $200 billion of shortfall over the balance of the 1980's. The recommendations of the National Commission would cover this shortfall. While there are certainly other ways that it could be done and almost everyone, I suppose, would have a way which they believe is preferable to the recommended way, it is far better to support what has been recommended than to follow any other course.

The major problems that I have with the recommendations of the National Commission are that they do not go far enough in certain areas and they do not clearly inform the public of the continuing nature of the problems that exist with Social Security and the realities that must be taken into account to deal with these problems. Accordingly, I recommend below several areas where I would like to see the Subcommittee develop proposed amendments to the recommendations of the National Commission and to have these amendments debated and considered. Even if in the final analysis they are not enacted because they might unbalance the package, I think the process of developing amendments and debating them in public would do a great deal to inform the public that the recommendations of the National Commission are only one of many solutions to the short-term problem, provide no solution to the long-term problem, and most of all, may perpetuate myths about the Social Security system which should be dispelled.

PROPOSED AREAS FOR AMENDMENT

1. Greater equity among beneficiaries, especially women

The present system involves substantial equity problems from the standpoint of various beneficiaries. The recommendations of the National Commission are essentially not responsive to these inequities because of the desire to sanctify the structure of the present system. However, the recommendations do include several proposals to provide increased benefits for divorced or disabled widows or widowers who remarry, change the indexing for deferred survivor benefits, provide increased benefits for divorced spouses regardless of whether the former spouse has retired, and to increase the benefit amount for disabled widows and widowers. While these are all equitable changes, they do not go far enough in addressing the structural discrimination against women contained in the present system.

Both women who work in the paid labor force and women who perform work in the household are not treated fairly under the present system. Many women in the paid labor force receive no benefits from the payroll taxes that they pay with respect to their compensation. Women who are homemakers do not develop earnings credits of their own and are entirely dependent on spousal and survivor benefits. There has been massive social change in America since this system, which essentially views women as dependents, was instituted in the late 1930's. It would be desirable to correct this structural deficiency of the present system.

I would urge the Subcommittee to endorse some form of earnings sharing which would be phased in over a sufficiently long period so that there would be no disruption in the Social Security system. An earnings sharing system would allow the development of individual Social Security accounts by everyone, men and women, and would, over time, provide everyone with the security of their own Social Security benefits. Since I would not favor a lowering of benefits for anyone because of this structural change, the transition to earnings sharing would undoubtedly involve long-term revenue costs. I would propose to handle these revenue costs by shifting in the long term on a phased basis some of the payroll tax revenues that presently support the Health Insurance Trust Fund to the Old Age Survivor and Disability Insurance Trust Funds to cover the costs of instituting earnings sharing.

The shift of payroll tax revenues I propose is similar to that recommended by the 1979 Advisory Council of which several members of the National Commission were also members. The Health Insurance Trust Fund does not logically require support by the payroll tax. The benefits are not wage related and would be more logically supported by general revenues. Also, the financing of the Health Insurance Trust Fund is part of the larger problem of health care generally in th country, and one of the areas which must be the subject of reform in the near future is Medicare-Medicaid and health costs generally. As long as the phase in of earnings sharing and the shifting over of the payroll tax to cover that phase in takes place over a sufficiently long period, so that national health planning can go forward to cover the reduced payroll tax revenues that will be available for the Health Insurance Trust Fund, there should be no difficulty in coordinating these changes. It would be an act of good faith on the part of the present Congress to the women of America to enact earnings sharing now.

Increasingly, poverty is a woman's problem in the United States. The vast majority of SSI beneficiaries are women. Women generally fare less well than men under Social Security. There is absolutely no reason not to address this problem directly and to provide greater equity in one of our fundamental social institutions. Redressing the problems of comparable pay for women and other issues that relate to their treatment in the work force would help to improve the treatment of women under Social Security. This consideration should not detract, however, from the consideration that with respect to retirement and disability systems which are socially maintained by the government, greater equality and the removal of discrimination should be a priority goal now.

2. More flexibility in retirement alternatives

There are essentially two views reflected in the National Commission's report on solving the long-term financing problem. One would increase the payroll tax and the other would raise the retirement age. For the reasons discussed below, I think neither proposed longterm solution is desirable.

First, it makes no sense to provide for raising the payroll tax so far in the future. The shape of the tax system fifty years from now will be governed by conditions unrelated to this issue. To the extent the long-term balance in the Old Age Survivors Insurance Fund is to be provided for by taxes, it would be better to provide for a shifting of the payroll taxes that support the Health Insurance Trust Fund. As discussed above, this sort of proposal is similar to that of the 1979 Advisory Council.

Second, there is no evidence to support an increase in the retirement age. Although in general people are living longer and in good health longer and therefore their work life arguably could be extended, there is no evidence that the labor market is providing the kinds of opportunities for the elderly that would be required to enable them to work longer. Unless the economy in general and the marketplace for jobs for the elderly in particular change in very dramatic fashion, it will be a hardship for many of the elderly if they cannot receive their Social Security benefits until a later date. Moreover, it will be a particular hardship for those who have been lower earners or are members of minority groups since they are apt to be the ones who will have the most difficulty staying in the paid labor force.

More fundamentally, it would be desirable to get away from the notion that there is some magic to a fixed retirement age like 65 or 66 or 62. It would be highly desirable to make the retirement alternatives under Social Security more flexible so that different people could opt for different alternatives depending on their individual circumstances. At the same time that more flexibility is provided, the incentives under the law should be designed to encourage working longer. With these criteria in mind, I would make the following suggestions for an amendment.

First, I would eliminate the earnings test which is an almost confiscatory form of taxation. Particularly now that Social Security benefits are going to be subject to tax in at least some circumstances, there is no reason to have the earnings test which is a form of taxation at a 50 percent rate, the highest marginal rate under the income tax. It is far better to let the normal provisions of the income tax apply to Social Security benefits.

Eliminating the earnings test would mesh nicely with the recommendation of the National Commission to provide additional credits of eight percent per year for beneficiaries who defer taking benefits for each year after age 65. People who can work and who are willing to voluntarily forego Social Security benefits should get increased credits and a larger pension when they do retire and take Social Security. However, this delay in receiving benefits should be voluntary and should not be enforced in effect by the penalties of the earning test.

Here again, I support the recommendation of the National Commission, but believe it should be taken further. Also, it is not clear to me what the basis is for the eight percent credit. I think the Subcommittee should review the setting of the amount and set the percentage at a sufficient level to provide a financially-based incentive that will work.

Another bad feature of the earnings test is that it leads many of the elderly into fraudulent activity, i.e., not reporting earned income, and thereby increases the underground economy. It is also administratively very difficult for the Social Security administration to police and involves considerable difficulties of over- and underpayment of benefits and related collection problems. Particularly in connection with the kind of reforms that are taking place here, it would be good to eliminate the earnings test.

The bill that was being developed by this Subcommittee in 1981 was beginning to address the problems of early retirement and reducing incentives under the law for such activity. At the present time, something like three-quarters of Social Security beneficiaries retire between the ages of 62 and 64 rather than at the normal retirement age under the law of 65. While they recieve reduced benefits, in most cases taking the earlier benefits, even at the reduced level, is economically desirable from the individual's standpoint. It would be good to reduce the incentives for early retirement by providing for a somewhat larger reduction and to try to increase the number of people thereby who would find it in their interest to wait to the normal retirement age of 65.

On the other hand, it is important not to overly reduce the amount of the retirement benefits at ages 62–64 because of the possibility that people who have no alternative but to take such benefits may well wind up over time as their assets are depleted and their needs increase as they grow older of becoming SSI beneficiaries and ending up with a need for welfare. A careful balancing of considerations is necessary in this area, but there is no reason that this Subcommittee on a bipartisan basis could not reach such a balance and take constructive action.

3. More equitable taxing provisions

If this Congress passes provisions to tax Social Security benefits, the Rubicon will have been crossed. Historically, proposals to tax benefits have been highly controversial; almost invariably in the past, the mere mention of this proposal leads to resolutions in the Senate or House condemning such proposals out of hand. The time may well have come to cross this Rubicon, and if this is so, then there is no reason not to carry the taxing provisions to their logical conclusion and in effect to march on to Rome.

The recommendation of the National Commission has serious equity problems because of the notch effect. One additional dollar of tax at the $20,000 or $25,000 lines produces a major difference. While the notch can be fixed by partial taxation below the lines, it would be far better to subject Social Security benefits to tax in the hands of everyone and to allow the normal exemptions, credits and deductions under the income tax law to take care of the lower income elderly. The lower income elderly will not be significantly affected, and there will be a smooth progression and the equity of the taxing provisions will be much improved. There would also be additional revenue gains from this which would be a worthwhile augmentation of the package.

From my standpoint, the proposal of the National Commission to tax 50 percent of the benefits is too rough and ready an approach. While it might be justifiable in the short term, I think it would be better in the longer term to provide for a more exact method for taxing Social Security benefits and to do it along the same lines on which private pensions are taxed so that there will be comparability and equity between the taxation of Social Security and private pension benefits. Thus, I would propose a system which, of course, would need to be phased in because of the revenue costs and the equity aspects, under which Social Security contributions generally are deductible currently and Social Security benefits generally are taxable in full.

Another area that should be dealt with at the time that taxation of Social Security benefits is enacted is the international aspects of the subject. Payroll taxes are generally applicable to Americans working overseas for American companies. There is an area of problems here that presently is not dealt with either in income tax treaties or international social security agreements. It would be desirable to have a study done of this area by your staff and to make adequate provision for the international aspects of payroll taxes and Social Security benefits.

4. *Improved administration of income security programs*

The recommendations of the National Commission include some with respect to administration. Specifically, two public members would be added to the trustees of the system and the funds held in the trust funds would be invested at more current interest rates. Further, the report includes a recommendation by some members to make the Social Security Administration an independent agency. There is also a recommendation to take Social Security off budget or, alternatively, to create a separate budget line apart from all other income security programs.

I have no objection to the recommendation of the National Commission to appoint two public members to be trustees, although I think it is not of major importance. The President and Congress must ultimately be responsible for the integrity of the Social Security system and adding two public members is largely a formal matter and would be of no great consequence in alerting either the President or the Congress to the problems that must be dealt with from time to time. Similarly, the crediting of interest on the trust fund balances to the Social Security trust funds is basically no more than an accounting matter. It is all the government's money in any event and it is simply a reflection of the myth that the trust funds are more than an accounting device that leads to the crediting of interest.

I would support on balance making the Social Security Administration an independent agency. It is larger than the rest of the Department of Health and Human Services and would operate better if it were a separate agency. It is interesting that the name of the Department of Health and Human Services would not need to be changed if Social Security were taken out, which is symptomatic of some of the problems of having Social Security operate as a subsidiary component of that Department. I would, however, be clear that it would be desirable to have the Health Care Financing Administration, which administers the Medicare program, and the agencies administering the welfare programs such as AFDC included in the Social Security Administration. I would also give the new Social Security Administration a mandate to consider and make recommendations for further income security programs to be included and I would enventually see the agency becoming a Department of Income Security.

We need to become more aware as a society that the major function of government in the domestic area is income security. If all of the items in the Federal budget that deal with pensions, retirement and related benefits are considered along with Social Security, more than half the Federal budget is devoted to income security. Moreover, something like 1 out of 4 Americans are dependent in whole or in part on some sort of benefits from the government for their support. The time has come to look at this are comprehensively and any change in governmental forms here should take account of this phenomenon.

From this same standpoint, I would be strongly opposed to either moving Social Security off budget or to giving it a separate treatment apart from other income security programs. Social Security is simply too big a part of the government budget and the payroll tax is too major a part of the tax system to be viewed separately. Moreover, there is probably a great deal of potential for overlapping programs and inefficiencies in looking at Social Security separate and apart from other income security programs.

To take one symbolic event to show how pronounced the problems are, I would recall for this Subcommittee that while I was Commissioner, I worked with the Subcommittee and the Congress to develop a comprehensive disability reform bill. At that time we were asked whether a cap on disability benefits that took account of all federal disability benefit programs was feasible and the answer was that it was not because we could not even identify all of such programs. It is not desirable at a time when there are enormous deficits and the need for greater governmental efficiencies and more coordination in government programs to try to move Social Security into a separate category and not to do the hard work that is required to rationalize the income security area.

Finally, I would have the new Social Security agency run by a head appointed by the President and confirmed by the Senate. The agency could have whatever advisory boards of an expert or bipartisan nature are appropriate. However, there can be no institutional substitute for the fact that it is the President and the Congress that are responsible for Social Security. The idea of a separate board, like a board of directors of a corporation, that purports to be providing management for the system would create a myth for the public that is dangerous.

5. Stimulate development in other major related areas (medicare, private pensions, and individual savings)

There are three serious deficiencies in the recommendations of the National Commission. I do not point these out as a negative reflection on the valuable work accomplished by the National Commission, but only because bipartisan consensus was not achievable to deal with these areas. These three areas are: (1) the failure to agree upon a long-term solution; (2) the failure to take account of the coming crisis in the Health Insurance Trust Fund; and (3) the failure to educate the public as to the true nature of Social Security.

The inter-fund borrowing which has in effect bailed out the Old Age and Survivors program during the past year involved borrowing funds from the Health Insurance Trust Fund which is temporarily in a surplus position. This act alone shows the interrelationship between the Health Insurance Trust Fund and the other two trust funds. Yet the Health Insurance Trust Fund on its own will have insufficient funds to pay benefits probably before the end of the 1980's. At that point, unless there has been some major reform of the Medicare program to control costs or increase revenues, a crisis not dissimilar to the one presently faced by the Old Age Survivors Trust Fund will be upon the Congress and the public in general.

The National Commission report makes reference to this problem, although lightly, partly because it was not part of its mandate to provide a solution and, I suppose, also because unlike the problems of the Old Age and Survivors program there has not been sufficient consideration to reach any bipartisan consensus.

Meanwhile, the Reagan Administration has organized an Advisory Council under the auspices of the Department of Health and Human Services to consider some of these problems and is also making major proposals in the health care area related to both tax changes and benefit changes. All of this activity is apt to be confusing unless the relationship to the rest of the Social Security system is taken into account carefully. It would be highly desirable for this Subcommittee to have an amendment to create another bipartisan commission to deal with the problems of the Health Insurance Trust Fund and to give it a mandate which is conducive to finding a comprehensive solution.

A second area which is not even considered at all by the report of the National Commission is the relationship of Social Security to private pensions and individual savings. Here again, in the long run the growth of private pensions and individual savings could well take pressure off the Social Security system and make a major contribution to the solution of the long-term problems. Yet we continue to make piecemeal changes in these areas which are not related efficiently and comprehensively to the Social Security system. No better example of the dangers of the piecemeal approach exists than the provisions in last year's tax act which changed dramatically many aspects of the treatment of private pensions and may well have a dampening effect on their growth. Many of these provisions were enacted without even public hearings and at the last minute, and I would strongly urge this Subcommittee to take the leadership in the full Ways and Means Committee to try to put together a program that rationalizes last year's changes and attempt to stimulate the growth of private pensions.

The Congress enacted two years ago legislation to stimulate individual retirement accounts. The public response has been much more favorable than even was projected and it would be good for the Ways and Means Committee to review this development and perhaps go further. To the extent that individual savings can be augmented, it would be highly desirable. The evidence shows that those of the elderly who have private pensions and individual savings in addition to Social Security do better. We should try to place many more of our senior citizens in this category in the years ahead.

NEED TO EDUCATE THE PUBLIC AS TO THE REALITIES AND NOT PERPETUATE MYTHS ABOUT SOCIAL SECURITY

The most disturbing aspect of the present situation is the press and media coverage of the recommendations of the National Commission. The media are creating a sense that a total solution has been found to the problems of the Social Security system, and once this year's legislation is enacted, there will be no problems for the next fifty years. One would hope that afer ther disillusioning experience of the last few years when the 1977 changes did not even produce five years of smooth operations, that the media would be more wary and that the political system would be more candid about the true nature of Social Security.

Social Security is a major social institution that will inevitably be affected by the economic and social changes in the society. As our society changes in ways which are not predictable, the institution must be adapted. As discussed earlier in my statement, the treatment of women is the major example of how social changes in the last fifty years requires change in the institution. While one can argue about how much social change there has been and what institutional changes should be made in response, there can be no question that change is the order of the day.

Change in Social Security inevitably means that the political process will be involved and that the President and the then current Congress will be responsible for making these changes. This is not a program which can be fixed once and for all and set aside and not paid attention to. It is too large and too fundamental.

It is important to inform the public that Social Security is not like private insurance. No one to date has paid for the benefits they have received. On average, people have paid for about 18 percent of the benefits they have recieved and everybody up until now has recieved a large windfall if Social Security is looked at as a contributory plan. Social Security is a governmental program based on social welfare considerations. It is unique in having a dedicated tax source and a supportive mythology that engenders broad public support. This is not to criticize the system because the political decisions that were made over the years were generally good ones and were much in the interests of the country. However, it is to say that Social Security should be viewed as a governmental social welfare program inexorably related to the political process.

At the same time that we are emphasizing governmental responsibility, we should take steps to emphasize the importance of individual responsibility for retirement income. We must dispel the myth that Social Security is designed to provide an adequate retirement income. Social Security should provide no more than a basic level of support and people should be encouraged through private pensions and individual savings to augment Social Security if they want to maintain high standards of living during retirement. Congress can help, as it has, by providing tax incentives for these private actions, but it can also help by emphasizing the limited goals of Social Security vis-a-vis national retirement income standards.

Another important lesson from the past is that it is important for current Congresses not to overcommit the future. In retrospect, it was a mistake for the Congress in 1972 to have raised benefits by 20 percent and indexed to inflation. Up until 1972, each Congress made ad hoc changes every couple of years and adjusted benefits and generally kept them even with inflation, but at the same time made other changes which were helpful to the program. Since 1972, benefits have risen automatically and Congresses have been faced with the unpleasant task of simply raising taxes or lowering benefits. Congresses have done both to try to keep the system in balance, but the process has been extraordinarily difficult and painful.

It is, in my judgment, too late in the day to change substantially the basic level of Benefits and indexing provisions, although I would recommend to the Congress that it undertake a full study of indexing not only in the contaxt of Social Security but government programs generally and to see whether there are not some fundamental structural changes that should be made. My point is that it is not sound to enact payroll tax increases now that will trigger automatically in the long term. It is preferable to provide for a shifting over of the existing payroll tax in the long term from the Health Insurance Trust Fund to cover the cash benefit programs at the existing level of benefits and to work out in the context of national health planning the revenue sources for the governmental share of the national health care system. I would not at this point be legislating tax or benefits provisions which would lead to ever increasing amounts of payroll tax.

The payroll tax is not a good tax and in the long term we should not be increasing our reliance upon it. Payroll tax increases at this point in time are not healthy for the country. The payroll tax adds to the cost of labor, and at a time when unemployment is approaching 11 percent and we have an adverse balance of trade, wage costs should not be increased by the government.

In general, we may need to reinvent the tax system in this country. We need to find more equitable and acceptable means of raising the revenues necessary to sustain government. This will not be done by raising payroll taxes but then allowing income tax deductions and credits which in effect are give-backs nor by adopting gimmicks like contingent taxes that will cut in when budget deficits reach a certain level. Sound tax policy will only be achieved by responsible and careful action by an administration and Congress considering the tax system overall and acting in the public interest to restore its integrity, credibility and equity. Tax policy is a large subject, one which is peculiarly under our Constitution within the jurisdiction of the Ways and Means Committee, and I would hope that important work could be done on it during this Congress.

CONCLUSION

I am pleased to have had the opportunity to appear before you today and to make a statement on Social Security reform. It is the highest priority issue on the domestic agenda and your Subcommittee is faced with a great responsibility. Your Subcommittee is also faced with a great challenge and I hope that you make the most of it. You in the first instance will test whether the recommendations of the National Commission will be enacted as such without change or whether they can be improved along some lines which would produce even greater gains for the country. Your judgments are important and I wish you well as you make them. I am available to answer questions and to provide any help that you may request of me.

Chairman PICKLE. I thank you. You have given us a good statement and it will be helpful to us, and I am glad you commented about your views on the unified budget or at least that it could be an independent agency instead.

We notice also your other areas of agreement here. I thank you for your testimony and perhaps we will come back to you.

Mr. Gwirtzman, we will be pleased to hear from you.

STATEMENT OF MILTON S. GWIRTZMAN, FORMER CHAIRMAN, NATIONAL COMMISSION ON SOCIAL SECURITY

Mr. GWIRTZMAN. Instead of summarizing my views, I wrote a very short statement, so I think I can get through it in the allotted time.

I requested the opportunity to appear before you today primarily to present the views of the members of the National Commission on Social Security on the social security reform proposals now before you.

As you recall, the National Commission on Social Security was a bipartisan, independent panel of private citizens formed at the direction of Congress as part of the 1977 amendments to the Social Security Act. Its members were chosen by the leadership of Congress and the President to conduct a complete review and investigation of social security and related programs. I presented our financing recommendations to this subcommittee in February 1981, just a year ago. A number of our recommendations were incorporated into H.R. 3207, which this subcommittee considered in the first session of the last Congress.

I have conferred with each of the nine members of our Commission within the last several days. I wish to report to you that, by a vote of 8 to 1, we support the plan proposed by the National Commission on social security reform and urge its passage by the Congress.

Not all of us support every ingredient of the reform plan. It is the result of negotiation and compromise, just as ours was the result of negotiation and compromise. But we do feel that speedy approval of this plan is the best way to assure the public that the social security system will not fail; that the benefits will be paid on time; and that this Government has the will to do what is necessary to preserve the system into the indefinite future.

The one dissenting member, Mr. Russell Laxson, of our Commission, has prepared a statement which I am submitting to the subcommittee to be made part of the record.

Chairman PICKLE. His statement will also be made a part of the record.

[The prepared statement follows:]

LAKE SAN MARCOS, CALIF., *January 20, 1983.*

Hon. WILLIAM L. ARMSTRONG,
Chairman, Social Security Subcommittee, Senate Finance Committee, Washington, D.C.

DEAR SENATOR ARMSTRONG: In May 1978 I was the appointee of the Senate Republicans to the nine member National Commission on Social Security (was recommended by Senator Curtis and approved by Senator Baker). That Commission, created by the 1977 Social Security amendments, reported to the President and Congress in March 1981.

Unfortunately I was one of a minority of three (sometimes four) Commission members which lost most of the battles with the majority group headed by Wilbur Cohen, whose primary interest was in expanding benefits.

It seems that history has somewhat repeated itself in the Reform Commission and I share your dismay at the compromise package approved last weekend. I am hoping that the apparent current euphoria resulting from both political parties being at least temporarily "off the hook" does not prevent a hard look by Congress and hope my commetns may be of some value.

The one year acceleration of the scheduled 1985 OASI tax increase falls entirely on employers since the employee receives a full tax credit for his portion. (Why go through all those payroll deductions and tax return entries for a net zero result to the employees?) The permanent one third increase in the tax on the self-employed is partially offset by an income tax deduction of 50 percent of his total tax.

Any additional payroll taxes on employers and the self-employed can well be self-defeating in the present economic climate, the methods proposed create additional anomalies in an already patchwork system, but most importantly these and other plan provisions introduce substantial general revenue financing into the system through a back door method. The implications of general revenue financing, a long-time goal of Mr. Ball and other expansionists, are well know—creating additional general budget deficits—and should be strongly resisted.

The compromise plan treats too lightly the benefit structure which has swollen so rapidly in the last decade. The proposal to subject 50 percent of benefits to income taxation for those who have any significant income from savings and other pensions is wholly inequitable and its long-term effect on current wage earners will be highly negative.

With respect to benefits, the cost of living allowances have added almost 50 percent to the checks of the 34 to 36 million recipients over the last five years, the largest coming in 1980 and 1981, 14.3 percent and 11.2 percent. The CPI during this period undoubtedly overshot the real living cost increase for retirees as a group by a good margin—especially in the housing component of the index which is now being revised. There is also a real question as to whether OASDI benefits during this period should have been allowed to increase, as they did, more than average wages. It would seem there is without undue sacrifice much more room for a slowing down of future COLA increases than the proposed six month delay included in the compromise proposal.

The book of actuarial cost estimates furnished the Reform Commission in November shows on page D-1 that the comlete elimination of the 1983 COLA adjustment would provide about $100 billion during the 1983-89 period, $60 billion more than the six month delay. Several other alternative formulas outlined on page D-1, discounting in various ways the COLA adjustment in each of these seven years, could provide somewhat more than $100 billion.

I believe Congress should enact one of these formulas rather than the six month delay. The case can certainly be made that this is an area that has grown too fast. The amount of slowdown under such a formula would be a very small percentage of the expected total benefits to be paid during this seven years ($1,62 trillion under actuarial alternative IIB and $1.77 trillion under III). Also it should be recalled that in 1972 the COLA provision was added to the law not as a floor but as a cap to eliminate the over-generous ad hoc benefit increases then being granted by Congress almost every year.

Turning to the proposal to tax 50 percent of Social Security benefits of those whose other income exceeds a stated amount, many people speak of the Social Security system as being "regressive" because the tax rate on employees and employers is at a flat rate up to a maximum covered salary. However the benefit structure of OASDI is heavily weighted in favor of lower income workers. Therefore the system as a whole becomes highly "progressive" * * * and for a current low to moderate income worker the employee tax over the years may pay for just 10 percent to 25 percent of his ultimate benefits. However the payroll taxes collected from a high income wage earner, with modest interest assumptions, could more than pay for his benefits.

More progressive if Medicare is taken into account. A worker covered for ten years at a minimum amount of tax receives the same Medicare benefits at age 65 as a worker paying maximum social security taxes for 40 or 45 years.

Therefore the concept that benefits for any one individual come half from employee taxes and half from the employer portion is completely erroneous and a proposal to tax 50 percent of benefits has no basis in logic.

The current worker above the moderate income level faces a marginal prospect at best under Social Security. If on top of this a substantial portion of ultimate benefits are to be recaptured through income taxes, the outlook becomes quite bleak and public support for the program will certainly be reduced.

In addition, this of course is another facet of general revenue infusion into the system. However if the federal government begins to tax benefits state and local governments will not be far behind and a goodly portion of the estimated $30 billion federal tax take will be siphoned off at the state and local level.

There would be equity in imposing tax on total benefits if (1) lifetime employee payroll taxes had been deductible in computing personal income tax or (2) after lifetime employee payroll taxes, perhaps indexed to current dollars, had been recovered. To do this on an equitable basis would require a transition period of several years to protect current retirees and those close to retirement.

It would be much more comfortable to comment on this Commission plan after seeing a full final report and becoming familiar with all the details. The basis on which new federal employees are brought into the system could be either constructive or a long-term disaster. The basic long-term problems have really not been addressed other than comments concerning a deferred retirement age. More attention needs to be directed to benefit components. Whether $169 billion even if attained will be sufficient is still a moot question.

However with the press of time it seems necessary to comment quickly on the obvious deficiencies of the compromise plan and hope that somehow the legislative process can make some major changes.

Sincerely,

R. W. LAXSON.

Mr. GWIRTZMAN. We also note that 14 of the recommendations we made 2 years ago have been endorsed by the Reform Commission, some in their entirety and some in principle. The list is included in the appendix of my statement.

The remainder of my statement consists of my personal views, as it was not possible in the time available to bring the members of the Commission together to formulate a lengthy joint statement.

There are some who have said there was no need for the Reform Commission because all the necessary findings and recommendations already existed in the reports of our Commission, of the Advisory Council, and of the other Government groups which have studied the subject over the past 4 or 5 years.

I could not disagree more. In view of the pivotal role played by the Congress in the formulation of social security legislation, there is a world of difference, in terms of chances of passage, between the recommendations of a group of private citizens, no matter how expert or hard working, and those of a group formed in large part of members of Congress with major leadership responsibilities in the field.

We can exercise our best judgment and then go home. They must make recommendations they can defend during the legislative process and afterward. We are responsible only to our own opinions of what is best for social security and the country. They must live with their recommendations in the heat of political debate, before their constituents, now and in their campaigns for public office.

The fact that a large, bipartisan majority of the Congressmen and Senators and the Reform Commission have endorsed the plan indicates that it can survive the legislative process, and its makers can survive the political process, even though interested groups will state complicated issues in simplistic terms and will stir strong and sincere public opposition to the parts of the plan which affect them the most.

The financial status of the trust funds has deteriorated since the time we conducted our study, along with the Nation's economic health. It is obvious that stronger measures are necessary than those we recomended 2 years ago, if the short-term solvency of the system is to be preserved.

The problems of social security, at least in the short run, arise not from any internal flaw but from economic conditions outside its control. By the same token, the success of the reform plan will depend upon the performance of the economy. The projected status of the trust funds, even with the savings from the reform proposals, is based upon estimates of wage increases, price increases, employment and real GNP.

As a whole, these estimates are more pessimistic, and probably more realistic, than those we and the other advisory groups relied upon. However, they still forecast a gradual decline in unemployment, to 7 percent by 1989, and a relatively mild inflation, in the 7- to 8-percent range. If the economy does not live up to even these modest expectations, the reform plan will not close the expected 7-year deficit.

That is why in conclusion I strongly recommend that the Congressional Budget Office be asked to submit a report on the economic impacts of the proposal before you. For example, will advancing the date of the payroll tax increase unemployment, and if so to what extent? Will the deficits from the proposed Treasury financing drive up interest rates and reignite inflation? If the tax increases in the plan were to be replaced by benefit reductions, would the economic impact be better or worse?

Those are just a few of the questions. It is very important to try to get some answers, and I think that the CBO is the kind of independent and respected organization accustomed to responding, that can produce them for you very quickly.

Thank you for the opportunity, Mr. Chairman, to testify today.

[The prepared statement follows:]

STATEMENT OF MILTON S. GWIRTZMAN, FORMER CHAIRMAN, NATIONAL COMMISSION ON SOCIAL SECURITY

Mr. Chairman and members of the Subcommittee, I requested the opportunity to appear before you today primarily to present the views of the members of the National Commission on Social Security on the Social Security reform proposals now before you.

As you recall, the National Commission on Social Security was a bipartisan, independent panel of private citizens formed at the direction of Congress as part of the 1977 amendments to the Social Security Act. Its members were chosen by the leadership of Congress and the President to conduct a complete review and investigation of Social Security and related programs. I presented our financing recommendations to this Subcommittee on February 17, 1981. Our complete set of recommendations were submitted to the President and Congress on March 12, 1981. A number of our recommendations were incorporated into H.R. 3207, which this Subcommittee considered in the first session of the last Congress.

I have conferred with each of the nine members of our Commission within the last several days. I wish to report to you that, by a vote of eight to one, we support the plan proposed by the National Commission on Social Security Reform and urge its passage by the Congress. Not all of us support every ingredient of the reform plan.

It is the result of negotiation and compromise, just as ours was the result of negotiation and compromise. But we feel that speedy approval of this plan is the best way to assure the public that the Social Security system will not fail; that the benefits will be paid on time; and that this government has the will to do what is necessary to preserve the system into the indefinite future.

The one dissenting member, Mr. Russell Laxson, has prepared a separate statement which I am submitting to the subcommittee to be made part of the record.[1]

We also note that fourteen of the recommendations we made two years ago have been endorsed by the Reform Commission, some in their entirety and some in principle. They include:

Extension of Social Security coverage to all new federal employees;

Extension of coverage to employees of nonprofit organizations not now covered;

Elimination of the option for state and local governments to terminate coverage;

Elimination of windfall benefits for government employees resulting from short periods of covered employment;

Increasing the amount of the disregard of OASDI benefits for the purpose of determining Supplemental Security Income payments;

Limited financing of Social Security benefits from the general revenues of the government;

Installation of some kind of fail-safe mechanism to ensure benefit payments in periods of fiscal emergency;

Wage-indexing, rather than price-indexing, of deferred benefits for surviving spouses;

Extension of authority for inter-fund borrowing;

Rejection of proposals to make Social Security voluntary, calculate benefits solely on the basis of contributions, and paying benefits according to need;

No change in the basic benefit structure or in the formula for calculating the initial benefit;

Increasing the credit for those who delay retirement beyond the normal retirement age;

Creation of an independent agency to administer the Social Security program;

Removal of the operations of Social Security and health insurance from the Federal budget.

(A more detailed comparison of these proposals is attached as an Appendix to this statement.)

The remainder of my statement consists of my personal views, as it was not possible in the time available to bring the members of the Commission together to formulate a lengthy joint statement.

There are some who have said there was no need for the Reform Commission because all the necessary findings and recommendations already existed in the reports of our Commission, of the Advisory Council, and of the other government groups which have studied the subject over the past four or five years. I respectfully disagree. In view of the pivotal role played by the Congress in the formulation of Social

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[1] Commission member Joyce Miller supports the plan but dissents on the proposal to cover newly hired Federal employees.

Security legislation, there is a world of difference, in terms of chances of passage, between the recommendations of a group of private citizens, no matter how expert or hard working, and those of a group formed in large part of members of Congress with major leadership responsibilities in the field.

We can exercise our best judgement and then go home. They must make recommendations they can defend during the legislative process and afterwards. We are responsible only to our best judgement of what is best for Social Security and the country. They must live with their recommendations in the heat of political debate, before their constituents, now and in their campaigns for public office.

The fact that a large bipartisan majority of the Congressmen and Senators on the Reform Commission have endorsed the plan tells me it can survive the legislative process, and its makers the political process, even though interest groups will state complicated issues in simplistic terms and will stir strong and sincere public opposition to the parts of the plan which affect them the most.

The financial status of the Trust Funds has deteriorated since the time we conducted our study, along with the nation's economic health. Instead of deficits of $50 billion a year, we are looking at predicted deficits of $200 billion a year or more. Instead of seven per cent unemployment, we now face double digit unemployment. True, inflation has been dramatically reduced; but it takes a two per cent decrease in inflation to offset the shortfall in Trust Fund revenues that is caused by every one per cent increase in unemployment. It is obvious that stronger measures are necessary than those we recommended two years ago if the short-term solvency of the system is to be preserved.

The problems of Social Security, at least in the short run, arise not from any internal flaw but from economic conditions outside its control. By the same token, the success of the reform plan will depend upon the performance of the economy. The projected status of the Trust Funds, even with the savings from the reform proposals, is based upon estimates of wage increases, price increases, employment and real GNP. As a whole, these estimates are more pessimistic, and probably more realistic, than what we and the other advisory groups relied upon. However they still forecast a gradual decline in unemployment, to seven per cent by 1989, and a relatively mild inflation, in the seven to eight per cent range. If the economy does not live up to even these modest expectations, the reform plan will not close the expected seven year deficit.

For this reason, I think it is important to know what effect the proposals themselves will have on the performance of the economy and the hoped-for economic recovery. Because its package was agreed upon at the last hour, the Reform Commission did not have the time or the staff to explore this. We have the opinions of some of the members, but no rigorous evaluation. Congress deserves to have the best opinion available on several questions:

Will advancing the dates of the payroll tax increase aggravate unemployment, and if so to what extent? Will it reduce business investment to a significant degree? If the tax aspects of the plan were to be replaced by benefit reductions, would the economic impact be better or worse?

Will the deficits from the proposed Treasury financing drive up interests rates and/or reignite inflation?

What effect will postponing the cost-of-living adjustment have on consumer demand?

Can these factors be measured in isolation, or will their influence depend upon what other fiscal and monetary policies the government pursues?

The issue of Social Security's effect on the performance of the economy has never been answered to my satisfaction, nor, I would guess, to yours. This Committee should obtain, as soon as it can, an objective evaluation at least of the economic effect of the changes proposed.

I therefore recommend that the Congressional Budget Office be requested to submit a report on the economic impacts which can become part of the Ways and Means Committee's deliberations.

Thank you for the opportunity to testify. I think we have taken a very important step with the recommendations of the Reform Commission. And while I do not begrudge you the decisions you will have to make, I am very hopeful that the system and the country will be strengthened by your work.

APPENDIX A

COMPARISON OF SELECTED RECOMMENDATIONS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM (NCSSR) AND THE NATIONAL COMMISSION ON SOCIAL SECURITY

1. Extension of Coverage

NCSSR: Extend coverage on a mandatory basis to all newly hired civilian employees of the Federal government.

NCSS: Same.

NCSSR: Extend coverage on a mandatory basis to all employees of nonprofit organizations.

NCSS: Same.

2. Termination of coverage

NCSSR: State and local governments which have elected coverage employees should not be permitted to terminate such coverage in the future.

NCSS: Same.

3. Windfall benefits

NCSSR: The method of computing benefits should be revised for persons who first become eligible for pensions from non-covered employment after 1983 so as to eliminate windfall benefits.

NCSS: The windfall portion of benefits arising from periods of noncovered government employment in the future (due to the weighted benefit formula) should be eliminated.

4. Income disregards

NCSSR: Increase the disregard of OASDI benefits for purposes of determining SSI payment levels from $20 a month to $50.

NCSS: Increase the general income disregard from $20 to $40 and index it to the CPI.

5. Limited funding shift from trust funds to general revenues

NCSSR: Credit the proceeds from the tax on benefits of high income beneficiaries to the OASDI Trust Fund; allow a refundable income tax credit for the increased amount of employee OASDI taxes in 1984; and allow self-employed individuals to deduct one-half of their OASDI tax payment (which are increased to 100 percent of the combined employer-employee rate).

NCSS: Pay one-half the cost of Hospital Insurance from general revenues; add a 2½ percent surtax to personal income taxes and denominate it as being for Hospital Insurance purposes.

6. Benefits for surviving spouses

NCSSR: Deferred benefits for surviving spouses should be computed by indexing the earnings record of the deceased worker by wages, instead of prices, during the period between the death of the worker and the time benefits are payable.

NCSS: Same.

7. Interfund borrowing

NCSSR: Extend authority for borrowing by the OASDI Trust Funds from the HI trust fund to 1987.

NCSS: Borrowing should be authorized among all three Trust Funds on a permanent basis, repayable with interest.

8. Credit for delayed retirement

NCSSR: Increase the delayed-retirement credit from the present 3 percent to 8 percent, to be phased in over the period 1990–2010.

NCSS: Larger increases in benefits should be available for persons who delay retirement beyond the normal retirement age (four alternative plans were presented).

9. Fail-safe mechanisms

NCSSR: Install a fail-safe mechanism to assure that benefits can be paid on time despite unexpectedly adverse conditions which occur with little advance notice.

NCSS: As an emergency measure, any of the Trust Funds should be allowed to borrow from the General Treasury, the loans to be repayed with interest. The authority would expire in four years.

10. Social Security in the unified budget

NCSSR: The operations of the Trust Funds should be removed from the unified budget and presented separately.

NCSS: Same.

11. Social Security as an independent agency

NCSSR: In principle, the Social Security Administration should be an independent agency. The feasibility of this should be studied.

NCSS: An independent agency should be established to administer Social Security, Medicare, Supplemental Security Income and Medicaid programs.

12. Alternatives to social security

NCSSR: Congress should not alter the fundamental structure of Social Security or undermine its fundamental principles. Commission rejected proposals to make Social Security voluntary, pay benefits on the basis of need, convert it into a fully-funded program or determine benefits exclusively on the basis of contributions paid.

NCSS: "Social Security is sound in principle and, of all alternatives is the best structure of income support for the United States. The major alternatives to Social Security are either too costly or offer insufficient assurance that income will be there when workers need it. Others are too limited in coverage or benefits."

13. Benefit structure

NCSSR: Did not recommend changes in the weighting of the benefit formula or in the method for computing initial benefits.

NCSS: Current benefit formula is "generally satisfactory for middle and high income workers." If combined with improvements in SSI, it can yield a basic floor of protection for low-income workers.

APPENDIX B

MEMBERS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY

Milton Gwirtzman, chairman, attorney and author, Newton, Massachusetts.

James J. Dillman, vice-chairman, attorney, Sheboygan, Wisconsin, chairman, State of Wisconsin, Retirement Fund.

Elizabeth T. Duskin,[1] vice-chairman, former director of research and legislation, National Council of Senior Citizens.

Wilbur J. Cohen, Austin, Texas, Sid Richardson professor of public affairs, Lyndon Baines Johnson School of Public Affairs, University of Texas at Austin, Secretary of Health, Education and Welfare, 1968–69.

Russell W. Laxson, Lake San Marcos, California, retired vice-president, public affairs, Honeywell Inc.

Donald S. MacNaughton, Nashville, Tennessee, chairman and chief executive officer, Hospital Corporation of America, former chairman and chief executive officer, Prudential Insurance Company of America.

Joyce D. Miller, Gutenberg, New Jersey, vice-president and director of social services, Amalgamated Clothing Workers of America; member of the executive council, AFL-CIO.

Robert J. Myers,[2] Silver Spring, Maryland, chief actuary, Social Security Administration, 1947–70, deputy director of Social Security, 1981.

David H. Rodgers, Olympia, Washington, chief deputy insurance commissioner, State of Washington, mayor of Spokane, Washington from 1967 to 1978.

Chairman PICKLE. We thank you, Mr. Gwirtzman.

I think your last suggestion about submitting these queries to CBO is a reasonable one, and as one member of the committee, I would favor that, and I think that other members will, too, and we will certainly take that into consideration at the time the questions are asked.

Do any of the members have questions of the panel?

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[1] Member of the staff of the National Commission on Social Security Reform.

[2] Executive Director of the National Commission on Social Security Reform.

Mr. SHANNON. Mr. Chairman, I don't have a question. I just want to thank the panel and thank Mr. Gwirtzman for coming from Massachusetts.

I would like to point out to the panel that the big snowstorm which was supposed to hit us yesterday is hitting Massachusetts today, so his decision to be here today probably means Mr. Gwirtzman will spend the week in Washington. We appreciate your coming.

Chairman PICKLE. If you spend that much time here, we may put you to work.

Mr. Archer? Mr. Anthony?

Mr. ANTHONY. Thank you, Mr. Chairman. I would like to ask Mr. Ross one question. Unfortunately I didn't have a chance to read in detail prior to your testimony your entire testimony, but in glancing through it it appears that you have taken the position that we should not raise payroll taxes in the outyears because we don't have that crystal ball and we don't really know what the future holds, and at the same time we should not make a fundamental change in raising the age limit of retirement from 65 to 66 because you say the record is not clear that that would be fair.

Do you feel that we should address the long term in this particular piece of legislation?

Mr. ROSS. I do. I feel it would be very good for the confidence of the country to be able to say that the trust funds for the old age and survivor and disability funds are in balance for the long term also. A lot will happen before you get there over the next 50 years, but I think you should try to do it. Therefore, my suggestion is along the lines of the 1979 advisory council report which is to slide over some of the payroll tax revenues from the HI fund into the cash payment funds to balance the books in the cash payment funds in the long term.

The reason I am willing to do that is that I think you are going to have to within the next few years come to the medicare-HI fund issues and do something about that in the short term and the long term the way you are now needing to address the cash payment programs, and at that time while you have created a larger problem in the HI fund by shifting the payroll tax, it will be just marginal to the problems that you have to deal with there, anyway.

Mr. ANTHONY. Do you see any complication in the fact that we have already borrowed $17.5 billion out of that fund?

Mr. ROSS. To that extent you would be making permanent that kind of borrowing.

Mr. ANTHONY. I would like to hear from the other panelists on that question, whether we should address the long term in addition to the short term.

Mr. FLEMMING. Mr. Chairman, there is no question in my mind, no question in the mind of the coalition but that the long term issues should be addressed for the reason that Mr. Ross has indicated. Personally, I wouldn't address it in the way Mr. Ross suggests, and I don't think most of the organizations I represent would. I would put the emphasis, as I indicated in my testimony, on the recommendations of five of the members of the Commission, namely making provision in 2010 for an increase in the payroll tax, if that is called for at that particular time.

Mr. **Gwirtzman**. I think you should. It is very difficult to ask Congress to legislate on something that won't go into effect for 20 years. But if, after getting through the short-term problem, you still have some bipartisan cooperation left, it is something that should be done. It is not fair, if you are planning to increase the retirement age, to suddenly spring that on people just a few years before they plan to retire. I think the reaction to the President's proposal on early retirement in 1981 showed that clearly. People have to have time to plan for such important changes in their financial future.

If I could make one more point about increasing the retirement age as a possible solution, I supported as a member of the original Social Security Commission a 3-year increase to age 68, beginning in the next century. I did so because, in my judgment, it is primarily a medical matter. We know people are living longer. But does living longer mean they are healthy enough to work longer? That is a medical judgment, which I am not qualified to make, but which the testimony our commission had available to us indicated the answer was yes.

Mr. **Anthony**. Do you still support that?

Mr. **Gwirtzman**. Since that time there has been new testimony, given to the new Commission by Mr. Feldman and Mr. Butler that is included in the report and papers, which casts some doubt about that question and says it is still an open question, and until I see that medical question resolved satisfactorily one way or another, I would reserve judgment on whether the retirement age should be increased by that much. I don't think a 1-year increase matters much, one way or another.

Mr. **Anthony**. Thank you very much.

Chairman **Pickle**. We thank each of you gentlemen. You have illustrious careers and very much are leaders of the country on this subject, and we appreciate your testimony very much.

Mr. **Flemming**. Mr. Chairman, I also serve as President of the National Council on Aging. I would like to have the privilege of submitting for the record a statement from that organization also.

Chairman **Pickle**. Without objection, that statement may be submitted. Thank you.

[The information follows:]

STATEMENT BY THE NATIONAL COUNCIL ON THE AGING, INC., ON PROPOSALS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

The National Council on the Aging believes that significant progress has been made on behalf of today's and tomorrow's older Americans by the National Commission on Social Security Reform.

We commend particularly the Commission's reaffirmation of the basic soundness of the Social Security system and its rejection of proposals to make the system voluntary, change its funding mechanism or convert it into a means-tested system. These proposals would have damaged the capacity of the Social Security system to protect the incomes of older Americans and should now be put to rest for all time.

We recognize that the Commission faced and, in the main, surmounted, major political obstacles in reaching the compromise package which it has sent to the President and the Congress. We, however, regret that some of the compromises reached place a considerable and unnecessary burden of the program's beneficiaries. This is particularly regrettable since the public has, in every poll taken during the last several years, continued to reject the options of lowered benefits or reduced cost-of-living adjustments for retired people. They have instead continued to express a preference for increased Social Security taxes over reduced benefits for present or future beneficiaries.

In a national poll conducted by Louis Harris, which our organization commissioned in the summer of 1981, 92 percent of the American people over age 18 rejected the proposal to reduce benefits of those already retired. In another poll conducted by Mr. Harris on October 29, 1982, 86 percent of the public opposed such cuts.

In our 1981 study, 72 percent opposed cutting back the cost-of-living increases presently provided beneficiaries. In a poll conducted by the Los Angeles Times on November 14-18, 1982, 54 percent of the public opposed delaying or reducing cost-of-living increases.

As recently as January 18-23, 1983 in a poll undertaken by the Washington Post and ABC News, 58 percent of the public, when asked to choose between benefit cuts and tax increases, preferred raising taxes. Only 21 percent preferred cutting benefits.

It is significant to note that in that poll, according to the Washington Post of January 27, 1983, "almost nine in 10 said the current benefits paid to retirees are either too low or 'about right' and only eight percent said benefits are 'too high'."

We are mindful of the attempt to ease some of the burden of the proposed delay in the cost-of-living adjustment by introducing a long overdue improvement in the formula used to compute eligibility for older poor persons who receive both Social Security benefits and Supplemental Security Income (SSI). But less than half of the older poor receive SSI and no effort is being made to enroll other eligible poor people into that program.

Even this modest attempt to protect the older poor is endangered by the President's Fiscal 1984 Budget Proposals which recommend a freeze on cost-of-living adjustments for SSI and food stamp benefits. The older poor would be placed in multiple jeopardy if each of the sources of their cash and other income supports were curtailed.

We urge the Congress, as it reviews the Commission's recommendations, to reject the option of delaying the cost-of-living increase for the Social Security program's beneficiaries and to enact other available and more acceptable options in its place. We also urge that no freeze be placed on related income supports of the older poor. To do otherwise will accelerate the recent descent of older persons into the ranks of the poor and further impoverish those already there.

The National Council on the Aging has in its possession thousands of petitions signed by individuals of all ages urging the Congress to secure the Social Security program without cutting benefits. A delay in the payment of the cost-of-living adjustment is indeed a cut in incomes of older people, a $40 billion cut over the next seven years according to the Commission's own projection.

In its place the National Council recommends that the Congress move up the already enacted Social Security taxes due to go into effect in 1988 to the point where they produce the needed annual income to the system's trust funds. Not only would this alternative assure the nation's aged that their conditions and concerns are accurately perceived and acted upon, but it would be in keeping with the oft expressed wishes of the young as well.

Several other proposals outside of those included in the bipartisan compromise are being promulgated by some members of the Commission and others still bent on destroying the Social Security compact between our government and the people. The proposals concern changing the program's fundamental and nationally-supported retirement age, that was wisely left in place by the Commission, and the formula used to determine benefits for future retirees.

These proposals purport to deal with possible shortfalls of the fund 50 to 75 years from now. Not only are such shortfalls based on highly questionable assumptions, they fly in the face of what Americans want the Congress to do.

The NCOA Harris Poll of 1981 found that 59 percent of the public disapproved of the proposal to gradually raise the retirement age for full Social Security benefits from 65 to 68. Only some 35 percent approved. The Los Angeles Times survey of 1982 found that 52 percent still oppose such an increase in the retirement age. The October 1982 Harris Poll found that 58 percent of the public oppose this proposition.

The proposals to change the program's benefit formula to reduce benefits to future retirees should also be discarded. In the 1981 NCOA-Harris poll, 85 percent of the public disapproved of reducing benefits for those retiring in the future. Only 11 percent approved.

We urge the Congress not to take away another option from those approaching retirement who are burdened by illness or unemployment or whose conditions of work or other circumstances make it necessary for them to retire at age 65 or earlier. We support the positive inducements recommended by the Commission to provide significantly higher benefits to those who retire later than age 65. That is useful for those who can and wish to wait. It is good public policy. But it would be bad public policy to penalize those who cannot wait by reducing their options and their benefits.

On October 7, 1982 the Board of Directors of the National Council on the Aging promulgated seven principles by which to measure any change proposed in the Social Security system. We reaffirm them and urge the Congress to measure its reaction to the Commission's recommendations by them.

These principles are:

1. Social Security should continue to provide benefits as a matter of right to all current and future retirees without reduction from current levels;
2. Social Security benefits should be protected from erosion by cost-of-living adjustments;
3. The ages at which one is entitled to partial and full retirement benefits should not be changed.
4. The Social Security system should cover all workers, including government and nonprofit organization employees;
5. General revenues should be available to guarantee payments to beneficiaries when economic conditions require it.
6. Social Security should consider the special needs of married women whose working patterns were determined (during their marriage) by the income and child raising needs of the family. Likewise, it should consider the plight of single women who, under the system as it now operates, are treated in an inequitable manner.
7. Social Security should be removed from the unified budget to insulate it from undue political considerations.

The Commission's proposals came a long way in meeting the test we have laid out. Where they fall short, we believe they can be rectified with minimal dislocation of the rest of the compromise.

It must be remembered that the Social Security system has, as of last year, already been diminished by the elimination of minimum benefits for new retirees, by a reduction of dependent student benefits and a limitation on eligiblity for lump sum death benefits. In the last year too many disabled beneficiaries have been exposed to massive and unfair attacks of their eligibility. These and the continuing need for benefit improvements especially for women, the older poor and the "old-old" still await a compassionate response from the Congress. Let us not compound the damage already done to the system by now manipulating the retirement age or the benefit calculation formula.

Let us restore the financial soundness of the Social Security system and the public's reason to have faith in it and in the courage of the Congress.

Chairman PICKLE. Now the Chair will ask a panel consisting of Joseph Eichenholz, representing NAM; James D. "Mike" McKevitt, representing the National Federation of Independent Business; Mr. John Fitch, National Association of Wholesaler-Distributors, and Dr. Jack Carlson, representing the National Association of Realtors—if those four individuals would please come forward and take a seat at the witness table.

The first witness will be Joseph Eichenholz, director of government and industry relations of the National Association of Manufacturers. Then I understand that Mr. "Mike" McKevitt, our former colleague, is not here and that Mr. William J. Dennis will represent him. Which one is Mr. John Fitch? Is Dr. Jack Carlson here?

We will proceed with your testimony, Mr. Eichenholz.

STATEMENT OF JOSEPH EICHENHOLZ, DIRECTOR, GOVERNMENT AND INDUSTRY RELATIONS, CIGNA CORP., REPRESENTING THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. EICHENHOLZ. I am here this morning to represent the NAM, an association of over 12,000 corporations of every size and industrial classification located in every State.

Our members employ 85 percent of the workers in manufacturing employment and produce over 80 percent of the Nation's manufactured goods. I will summarize the statement and request that the entire statement be inserted in the record.

We would like to commend the subcommittee for its leadership in seeking solutions to the financing problems of social security and would also like to commend the National Commission on Social Security Reform for the long and tortuous path it followed to the package of recommendations now before the Congress.

In view of the need to act on this issue, the directors on February 4 adopted the following resolution: "In view of the overriding importance of assuring the continuation of a responsible social security program, the National Association of Manufacturers supports the package of recommendations of the National Commission, an essential part of which is to close the long-term funding gap through measures to control the growth of benefit payments."

NAM strongly urges adoption of this package by the Congress, recognizing that these recommendations represent a compromise and in some respects, particularly those involving increased taxation, the recommendations contain elements inconsistent with NAM policy.

The consensus, recommendations of the Commission would close only two-thirds of the long-term gap of 1.8 percent of payroll. The NAM supports the recommendations of a majority of the Commissioners that the remainder of that gap should be alleviated through a gradual increase in the age of first eligibility for full benefits from 65 to 66 beginning after the year 2000.

This proposal appropriately recognizes increased longevity, greater ability to work and important changes in attitudes in the workplace. A recent survey of pension plan sponsors conducted by CIGNA Corp. and the Employee Benefit Research Institute revealed that most plan sponsors support older workers staying active longer.

A majority felt that a legislated increase in the normal retirment age was an appropriate mechanism to achieve this result. I would add that I would support and the NAM would support the Commission's recommendations that special consideration be given to those who might not otherwise be able to remain in the work force.

The Commission also examined but did not include as a specific, long-term solution procedures to gradually reduce the initial benefit levels to be paid to future retirees. One means of achieving this would be through a modification of the bend points. The temporary bend point modification studied by the Commission would permit benefits to grow but at a more moderate and affordable rate.

Such a change would restore the level of benefits approximately to the level which existed in 1972 before faulty indexing procedures unintentionally caused increases in benefits levels. Thus, the bend point modification could be viewed as an equity increase to complete the correction of those faulty indexing provisions.

The Commission also agreed that there was a need for a fail-safe mechanism. The most equitable and responsible form of such a mechanism is one that would automatically modify cost of living adjustments if trust fund ratios were to fall below a certain level.

This would be equitable because unexpected difficulties would most likely be caused by adverse economic conditions.

The working age population would normally experience a reduction in their standard of living under those conditions. A reduction in the COLA would spread that burden among the entire population and if Congress desired, those at the lowest income levels could be protected in some manner as was done under the Commission plan.

This proposal is responsible because it preserves the self-financing integrity of the system and avoids the use of general revenues. The use of general revenues as a "fail-safe mechanism" only serves to weaken confidence in the system, and could ultimately lead to a needs tested program. It would also only increase deficits in the remainder of the Federal Government. This could have a disastrous effect on inflation and the economy at a time when we would need to encourage economic recovery.

The National Commission on Social Security Reform chose not to address the financing problems of the medicare program directly in their deliberations. We concur with the wisdom of that decision, but urge the committee not to ignore the fact that solutions to those problems will have to be added to those legislated for OASDI.

In summary, Mr. Chairman, we endorse the Commission's program and hope that the Congress will legislate solutions to the remaining part of the long term gap as recommended by a majority of the Commission members and as supported by the NAM. We also observe that even if the Commission's recommendations are enacted, we still need to address the serious financial problems facing medicare. Failure by Congress to enact the present recommendations will have serious implications for the viability of the program and for the nation's overall fiscal integrity as well.

We thank you for the opportunity present our views on preserving the integrity of social security and we look forward to constructively working with this committee and the Congress on this and other critical economic issues affecting our Nation's recovery.

Thank you.

[The prepared statement follows:]

STATEMENT OF JOSEPH EICHENHOLZ, DIRECTOR OF GOVERNMENT AND INDUSTRY RELATIONS, CIGNA CORP., ON BEHALF OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

Mr. Chairman and members of the Subcommittee on Social Security, my name is Joseph Eichenholz, and I am Director of Government and Industry Relations of CIGNA Corporation. I am also a member of the National Association of Manufacturers' Policy Subcommittee on Social Security. Today I am representing the NAM, an organization of over 12,000 corporations of every size and industrial classification located in every state. Our members employ 85 percent of the workers in manufacturing employment and produce over 80 percent of the nation's manufactured goods.

We wish to take this opportunity to commend the Subcommittee on its leadership in seeking solutions to the financing problems of the Social Security system. The NAM looks forward to working with you in this difficult but vital task. Indeed, the National Commission on Social Security Reform has struggled long and hard during the past year with this issue.

ACHIEVEMENTS OF THE COMMISSION

The Congress now has before it a consensus package of proposals by the National Commission on Social Security Reform. The very existence of this Commission and their tortuous route to a bipartisan solution is testimony to the enormous political difficulty of finding a reasonable proposal for assuring the financial viability of the Social Security program. The Commisison is to be congratulated on its very real achievements:

(1) First, it has achieved broad political agreement that the Social Security program does indeed suffer from a serious financial imbalance, both short-term and long-term.

(2) Second, it has achieved similar agreement on the magnitude of those problems and the financial consequences of a broad menu of possible changes.

(3) Third, the Commission has settled upon a specific package of proposals from that broad menu which would, if adopted, resolve the short-term problem, and two-thirds the long-term problem.

Because of the urgent need for prompt Congressional action, this package of proposals represents a satisfactory approach and has the support of the National Association of Manufacturers even though some of its specific components may not be consistent with existing NAM policy. The NAM is committed to working for a constructive solution to the Social Security problem. We have chosen not to comment on particular components of the Commission's proposal. With this in mind, the NAM Board of Directors on February 4 adopted the following resolution: "In view of the overriding importance of assuring the continuation of a responsible Social Security program, the National Association of Manufacturers supports the package of recommendations of the National Commission, an essential part of which is to close the long-term funding gap through measures to control the growth of benefit payments."

"NAM strongly urges the adoption of this package by the Congress, recognizing that these recommendations represent a compromise, and in some respects, particularly those involving increased taxation, the recommendations contain elements inconsistent with NAM policy.

CLOSING THE BALANCE OF THE LONG-TERM GAP

The consensus recommendations of the Commission would close only two-thirds of the long-term gap of 1.80 percent of the payroll. The NAM supports the recommendations of a majority of the Commissioners that the remainder of the long-term fiscal imbalance should be alleviated through a gradual increase in the age of first eligibility for full benefits from 65 to 66 beginning after the year 2000.

We support this specific recommendation for a number of reasons:

First, this proposal represents a demographic solution to a demographic problem. People will be living longer and should not pose a greater financial burden on the generation supporting their benefits than was placed upon them by the generation of retirees that they supported. Currently, 3.2 workers support each beneficiary. Once the Baby Boom generation retires, the "best estimate" is that there will be only two workers to support each beneficiary. If those projections are modified to reflect continuation of current birth rates, as has been done by the Census Bureau, even fewer workers than expected will actually be supporting each beneficiary.

Second, the ability of senior citizens to continue working has increased. We recognize that the demands of certain occupations may continue to make earlier retirment both desirable and necessary in some cases. However, the current 65 year old will live longer and will be potentially far more productive than his or her parent. A similar relationship with his or her child's longevity and potential productivity may also hold.

Finally, attitudes toward senior citizens in the work place have changed. A recent survey of pension plan sponsors conducted by CIGNA Corporation and the Employee Benefit Research Institute revealed that most plan sponsors support older workers staying active longer. A majority felt that a legislated increase in the normal retirement age was an appropriate mechanism to achieve this result. In the absence of any cost considerations most would have preferred using positive incentives, but the survey responses do demonstrate to us the positive and realistic approach to the Social Security problem which is the essential feature that will make its solution possible.

The Commission also examined, but did not include as a specific long-term solution procedures to gradually reduce the initial benefit levels to be paid to future retirees. One means of achieving this would be through a modification of the bend points. We urge the Committee to keep this in mind as it seeks solutions to those areas not specifically addressed in the Commission's consensus report.

It is critical that the Congress assure the public that under such a proposal future benefit levels will still grow as national productivity increases. Future benefits would be expected to grow in terms of purchasing power. The temporary bend point modification studied by the Commission would still permit benefits to grow but at a more moderate and affordable rate.

Such a change would restore the level of benefits approximately to the level which existed in 1972 before the faulty indexing procedures unintentionally caused benefit levels to explode. Thus, the bend point modification could be viewed as an equity measure to complete the correction of those faulty indexing provisions.

FAIL-SAFE MECHANISM

The National Commission also agreed that there was a need for, but did not agree on a "fail-safe mechanism" to guard against unexpected adverse economic conditions developing without adequate advance notice. The mechanism is necessary in addition to the other changes recommended in the compromise plan. Even with those changes, there is no certainty that further financial problems will be avoided because of the extremely modest trust fund margins now available.

Confidence in Social Security would further deteriorate if the system were faced with yet another financial crisis in a few years. A "fail-safe mechanism" would be available to avoid repeating the experience which followed passage of the 1977 Amendments.

The most equitable and responsible form of such a mechanism is one that would automatically modify cost of living adjustments if trust fund ratios were to fall below a certain level. This would be equitable because unexpected difficulties would most likely to caused by adverse economic conditions. The working age population would normally experience a reduction in their standard of living under those conditions. A reduction in the cost of living adjustment would spread that burden among the entire population. If Congress desired, those at the lowest income levels could be protected in some manner as was done under the Commission's plan.

This proposal is responsible because it preserves the self-financing integrity of the system and avoids the use of general revenues. The use of general revenues as a "fail-safe mechanism" would only serve to weaken confidence in the system, and could ultimatey lead to a needs tested program.

The use of general revenues would only increase deficits of the remainder of the Federal Government. This could have a disastrous effect on inflation and the economy at a time when we would need to encourage economic recovery.

MEDICARE PROBLEM

The National Commission on Social Security Reform chose not to address the financing problems of the Medicare program directly in their deliberations. We concur with the wisdom of that decision, but urge the Committee not to ignore the fact that solutions to those problems will have to be added to those legislated for OASDI. We particularly wish to note, as shown in Table 7B of Appendix K of the Commission's report, that the long-term gap for Health Insurance—Part A of Medicare—of 5.21 percent of payroll. Further, and not even quantified in the Commission's Report, is the long-term gap for Part B of Medicare, which technicians estimate is also greater than the 1.8 percent gap addressed by the Commission.

CONCLUSION

In summary, we endorse the Commission's proposal, and hope that Congress will legislate solutions to the remaining part of the long-term gap as recommended by a majority of the Commission members and supported by the NAM. We also observe that, even if the Commission's recommendations are enacted, we still need to address the serious financial problems facing Medicare, and in this regard we will watch with great interest the deliberations of the advisory Council on Social Security, the group now studying the hospital insurance program.

A failure by Congress to enact the present recommendations will have serious implications for the viability of the program and for the nation's overall fiscal integrity as well.

Thank you for the opportunity to present our views on preserving the integrity of the Social Security program. We look forward to working constructively with this Committee and the Congress on this and the other critical issues affecting our nation's economic recovery.

Mr. ANTHONY [presiding]. Thank you.

Mr. Dennis, we will take all four members.

STATEMENT OF WILLIAM J. DENNIS, JR., DIRECTOR OF RESEARCH, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Mr. **Dennis**. Thank you, Mr. Chairman. I ask that my statement be inserted into the record.

There are two points from my testimony that I would like to emphasize. The first is the impact of payroll taxes and the second, the need for a long-term structural reform.

Currently, small business pays a disproportionate share of payroll taxes for three reasons. One, small firms are more labor-intensive than are firms of other sizes. Two, they have four employees over the base, meaning more payroll is covered by a tax; and three, a deduction at the 17-percent level, which many small firms are at, is not worth as much as that at the 46-percent level.

A majority of small firms pay more in payroll tax than in any other type of tax. Unfortunately, the entire system of Federal taxation is gradually shifting toward a head tax on labor. Approximately one-third of all Federal revenues collected, excluding borrowing, now originate from the payroll tax in contrast to less than 15 percent 25 years ago. Between 1970 and 1990 there has been or is currently scheduled in law 9 FICA rate increases, 19 FICA base increases, 3 FUTA rate hikes, and 3 FUTA base hikes.

During that 20-year period, the maximum tax on an employee will have risen from $470 to $5,070. For a more typical employee, one earning $8,000 in 1970 and $25,000 in 1990, Federal payroll taxes will have risen from $470 to $2,346. That means the small employer hiring 10 people would have had a tax increase of $18,760, certainly more than the cost of 1 additional employee. While this single employee from the macroperspective may appear inconsequential, it is important to remember that there are over 3 million small employers.

Thus, the macro effect of these increases is hardly inconsequential. In fact, of the five simulations of alternative tax policy directions produced by DRI and Wharton for Business Week, the simulation accelerating payroll—FICA—taxes resulted in the highest unemployment rate and the lowest rate of real GNP growth.

Turning to the long term, the Commission's long-term recommendations are essentialy a residual of its short term recommendations. In other words, most of the short-term deficit reduction measures have a long-term effect, and that long-term effect constitutes virtually the sum of the Commission's long-term suggestions. The primary exception is the lesser of prices or wage with a recapture—COLA change—a cash management provision rather than one resolving any finance or equity question. The delayed retirement bonus is an important substantive change.

As a result, the Commission's long-term recommendations structurally change nothing beyond that which has been suggested for the 1983–89 period. NFIB feels this timidity inappropriate, avoiding rather than addressing serious problems.

Currently, old age and survivors insurance, OASI, the best known part of social security, combines annuity and transfer elements. That is, only a part of the benefits currently paid under OASI to retired persons and survivors represents a "return" on wage and self-employment taxes historically paid by beneficiaries.

The rest of OASI benefits, by contrast, aren't "earned"; they are in excess of the amount retired persons would be receiving had they saved rather than paying taxes, and brought annuities with those savings. Such unearned benefits are the policy equivalent of pure transfer payments.

As has been pointed out at length elsewhere, this mixing of elements, in addition to being conceptually degenerate, confuses policy and misallocates the burden of social transfer costs. In particular, funding of a transfer program—as opposed to an actuarially fair insurance program—from the wage tax is inappropriate. Participants in an insurance program should pay only for what they receive and receive only what they paid for. Transfers should be funded by universal taxes. Under the present system, by contrast, wage earners bear the special burden of a substantial income transfer program for the elderly.

We should reform social security and replace the current mixed arrangement with properly separated and properly financed insurance and transfer programs. If we did such, the following would be just some of the advantages which would accrue. Benefit equity, individuals in all generations and all groups would be treated identicaly. Social subsidies would be directed toward the poor only. Under the current benefit structure, social transfer payments are extended to beneficiaries regardless of need.

Third, reduced payroll taxes. SSA estimates that when the baby boom generation retires, OASI payroll taxes alone will reach over 15 percent of taxable payroll without changes.

Four, progressive tax support for social subsidies; five, a benefit protection floor. Six, the strengthening of the earned right idea—since annuity benefits would be based on contributions, the idea of social security as an earned right would be strengthened, and properly so. It would handle many women's concerns, for example, by providing a split unit of account, also known as earnings sharing.

Public confidence could be restored; it could improve the condition of the poor elderly and we could have a reduction in total expenditures.

The proposed reform does involve substantial changes in the current social security program. Given the looming financial problem and the controversy surrounding it, the obvious question then is why undertake it? The abbreviated answer can be found in the existence of our present problem. In 1977 we avoided long-term restructuring and went for the quick fix. Now we are paying for it, both figuratively and literally.

Since most would prefer not to act up on the system's problems unless absolutely forced to do so, the present situation provides a unique opportunity—particularly in light of the apparent bipartisan nature of the current proceedings. Further, the logic of the reform proposal and its incorporation of ideas most Americans feel fair and equitable would give the social security system an immediate boost in the confidence it so badly needs.

Thank you, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF WILLIAM J. DENNIS, JR., DIRECTOR OF RESEARCH, NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Mr. Chairman, NFIB, on behalf of its more than 500,000 small and independent member businesses, appreciates the opportunity to present our views on some important problems of the Social Security system and the recommendations provided by the National Commission on Social Security Reform.

Small business has a vital interest in Social Security. This interest is not only a function of the benefits small employers and their employees hope to draw at some future date, but also of the fact that a majority of small businesses now pay more in payroll taxes (of which FICA is far and away the largest) than any other form of taxation.

THE NATIONAL COMMISSION RECOMMENDATIONS

While our subsequent comments on the Commission's recommendations accentuate the negative, we think it important to note at the outset that there are recommendations with which we concur. We have mentioned some of them in our remarks. Further, we understand that the immediacy of the short-term problem limits the alternatives available. However, the "consensus package" of recommendations produced by the National Commission lacks policy consistency. Parts don't hang together; various elements are contradictory; mirrors sometime appear to be used; and the package almost completely ignores inter and intragenerational equity problems.

The best example of these liabilities can be found in a single provision—the taxation of benefits. That part of the package makes one-half of Social Security retirement benefits taxable if an individual has $20,000 or more of other income ($25,000 or more for a couple). The amount of revenues generated from this new tax liability are then returned to the OASDI fund rather than to general revenues of the Treasury as would normally be the case.

While taxation of benefits has less parochial interest for small business than other portions of the package, it has been less than two years since a major expansion in the attractiveness of Individual Retirement Accounts (IRAs). The policy objectives behind IRA expansion were: (1) to encourage more people to save greater amounts for retirement; and (2) to increase the national savings rate. Those were bona fide objectives, and the results seem to indicate that the IRA vehicle for achieving those objectives has been successful. However, taxation of benefits as proposed by the Commission runs contrary to that policy. Instead of encouraging people to save for retirement, the recommendation discourages them—at least from saving too much. So, what is the Federal policy toward saving for retirement? Is it the one which enjoyed bipartisan support in 1981 and gradually filtered into both major versions of the tax bill, or is it the one which now allegedly enjoys bipartisan support in the consensus package?

The rationale for this change is that current beneficiaries receive a large windfall (social transfers); these windfalls are not needed by the relatively wealthy elderly, runs the argument, and taxing benefits allows the Treasury to recover some of the money. It is, of course, clear that there are enormous windfalls being granted current beneficiaries. While one must wonder why such a circuitous and inefficient means of eliminating social subsidies to relatively wealthy retirees has been recommended, it must be emphasized that future generations of retirees not only will never receive windfalls; they are also guaranteed a negative return on their Social Security investment. Further, since the $20,000 and $25,000 figures are not indexed, the practical effect is to have the real dollar figure creep lower and lower precisely as windfalls are drying up and negative returns are becoming the order of the day.

Finally, a general revenue is a general revenue is a general revenue—no matter what the Commission calls it. Funneling the new receipts resulting from benefit taxation into the OASDI is employment of general revenues any way you cut it. It's not that NFIB is opposed to general revenues. We are not, and under particular conditions we favor them. Our questions stem from the fact that general revenues are being brought in through the "back door" without consideration of alternative revenue sources, the eventual size of the general revenue component, etc., etc.

While the tenor of the recommendations is questionable, specifics are as well. The most important of these for small business is the $40 billion in new payroll taxes (almost $60 billion with SECA).

Our entire system of Federal taxation is gradully shifting toward a head tax on labor. Approximately one-third of all Federal revenues collected (excluding borrowing) now originates from the payroll tax in contrast to less than 15 percent just 25 years ago. Between 1970 and 1990, there has been or is currently scheduled in law 9 FICA rate hikes, 20 FICA base hikes, 3 FUTA rate hikes, and 3 FUTA base hikes.

During that 20 year period, the maximum tax on an employee will have risen from $470 to $5,070. For a more typical employee, one earning $8,000 in 1970 and $25,000 in 1990, Federal payroll taxes will have risen from $470 to $2,346. That means a small employer, hiring 10 people, would have had a tax increase of $18,760—more than the cost of one additional employee.

While this single employee from a macro perspective may appear inconsequential, it is important to remember that there are well over three million small employers. Thus, the marco effect of these increases is hardly inconsequential. In fact of the five simulations of alternative tax policy directions produced by DRI and Wharton for Business Week, the simulation acceleration payroll (FICA) taxes resulted in the highest unemployment rate and the lowest rate of real GNP growth.[1]

Another payroll tax increase can be found in SECA. while it is difficult to argue that someone paying a 75 percent share of taxes should receive a 100 percent share of benefits, it is clear that self-employed people receive unequal tax considerations (in the opposite direction) in other areas. A self-employed person is half employer and half employee, and should be treated as such. Thus, while it might be reasonable to charge such a person the employer and employees' share of FICA, a self-employed person should be able to deduct the employer's share (½) of FICA taxes, private health insurance premiums, etc. It has been suggested that if a SECA hike were adopted, a credit of some kind rather than a deduction be provided. Clearly the credit provides the self-employed a "better deal" in the short run. But in the long run, just the opposite will occur because reasonable deductibility questions can then be avoided and eqully legislate claims for credits from other sectors will be entertained.

The Commission also recommend a tax credit be given employees to cover the 1984 payroll tax increase. While temporary in nature, the creidt creates a terrible precedent by: (1) breaking the traditional employer-employee cost sharing arrangement; and (2) providing an example for other groups who may advance legitimate claims for similar treatment. (The parallel between our views on this point and the one made in the previous paragraph should not be lost.)

NFIB supports the inclusion of all new Federal employees at a minimum—inclusion of all non-vested Federal employees is preferable. The equity argument is simply too compelling to adopt any other course. On a sloganeering level, the argument runs "if its good enough for the public, it's good enough for the public employees". But beneath that veneer, there is a considerably more substantive argument beyond the so-called "double dipping" question. Current retirees receive large social subsidies from the current generation of FICA taxpayers. Since Federal employees do not particpate in the system, they do not contribute to the subsidization of the elderly inherent within the existing benefit structure. Thus, there is an anomalous situation of a relatively wealth group of taxpayers being exempt from support of the nation's largest social welfare program.

Incorporating non-vested Federal employees, it will be argued, is not fair because these individuals will have received no Social Security credit for the non-covered period of their Federal service. That arugment has some legitimacy, but it is not insurmountable—quite the contrary. If a wage credit is provided, similar to one recommended by the Commission for the credits given the non-covered service of military personnel, then the equity argument based on that perspective is eliminated. Since the Commission did not include such an option among their working papers, we cannot provide a revenue estimate. However, the addition of non-vested Federal employees is $8 billion plus the credit.

There will be a need for benefit cuts as part of the overall short-term package. The question, of course, is how they can be achieved with minimal inconvenience to the elderly. In this regard, it is important that representatives of the elderly provide guidance. The Commission has made certain recommendations to cut the COLA.

Alternatives are, of course, available. For example, CPI-2 percent in combination with something else, a pro-ration of a new beneficiaries COLA, etc. The combinations are seemingly endless.

Finally, the "consensus" recommendations did not cover either the long-term or short-term deficit. The long-term needs no further elaboration—anywhere from 0.6 to 0.9 percent payroll needs yet to be covered. However, the short-term numbers, though alleged to cover the short-term deficit, seem strange. While we are certainly open to correction, consider the following: even if we assume the $168 billion is a sufficient aggregate amount to cover the 1983–89 period, a cash-flow problem would still seem to exist. The financing problem comes early in that seven year period—particularly in 1983, 1984 and 1985. By 1988 and 1989, revenues begin to approximate expenditures. Yet 47 percent of all deficit reduction measures are "backloaded"; they have been placed into 1988 and 1989. That would appear to mean the earlier period is short, and I know of no one wanting to repeat this exercise in the next two or three years.

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[1] The other alternatives were: (a) no change in taxes; (b) July 1, 1983, tax cut cancelled; (c) indexation of personal incomes taxes eliminated; and (d) July 1, 1983, tax cut moved up to January 1.

Since NFIB believes that the ultimate solution to the problem lies in separating the annuity and transfer components of the program, movement toward the long-term influences our view of the short-term financing problem. Thus, if given the choice between $40 billion in payroll taxes and $40 billion in general revenues directed toward funding the social subsidy part of the program, we would clearly choose the latter.

Raising the wage base beyond indexed increases rather than the tax rate has drawn little attention this year. In a choice between the two, it is clear that small business does better by wage base increases. The reason is that small firms employ relatively fewer people earning more than the base. The problem with the base increase, however, is that it takes us further from the long-term objective of tiering contributions and benefits more closely. Thus, we would prefer alternatives to either rate or base hikes.

The Commission's long-term recommendations are essentially a residual of its short-term recommendations. In other words, most of the short-term deficit reduction measures have a long-term effect, and that long-term effect constitutes virtually the sum of the Commission's long-term suggestions. The primary exception is the lesser of prices or wage with a recapture (COLA change), a cash management provision rather than one resolving any finance or equity question. (The delayed retirement bonus is an important substantive change.) As a result, the Commission's long-term recommendations structurally change nothing beyond that which has been suggested for the 1983–89 period. NFIB feels this timidity inappropriate, avoiding rather than addressing serious problems.

A LONG-TERM REFORM PROPOSAL

Currently, Old-Age and Survivors Insurance (OASI), the best-known part of social security, combines annuity and transfer elements. That is, only a part of the benefits currently paid under OASI to retired persons and survivors represents a "return" on wage and self-employment taxes historically paid by beneficiaries. The rest of OASI benefits, by contrast, aren't "earned"; they are in excess of the amount retired persons would be receiving had they saved rather than paying taxes, and bought annuities with those savings. Such unearned benefits are the policy equivalent of pure transfer payments.

As has been pointed out at length elsewhere, this mixing of elements, in addition to being conceptually degenerate, confuses policy and misallocates the burden of social transfer costs. In particular, funding of a transfer program—as opposed to an actuarially fair insurance program—from the wage tax is inappropriate. Participants in an insurance program should pay only for what they receive and receive only what they paid for. Transfers should be funded by universal taxes. Under the present system, by contrast, wage earners bear the special burden of a substantial income transfer program for the elderly.

This reform proposal would replace the current mixed arrangement with properly separated (and separately financed) insurance and transfer programs. Taxpayers, upon retirement, would receive an actuarially fair annuity equal in principal amount to the sum of their historical wage taxes, the taxes paid on their wages by employers (and self-employment taxes), plus interest. Under the Social Security—Entitled Annuity Insurance (EAI) program, retired people would receive exactly what they paid for. Such EAI payments would be financed by current payroll taxes, which would fund only earned annuities—and so be freed of the burden of a transfer program. Elderly taxpayers (and dependents of deceased taxpayers) with inadequate resources would have their incomes supported by a separate transfer program—Supplemental Retirement Benefits—a program which can focus on the needs of the elderly poor, not conceptually unlike the current SSI program. These, like any other transfers, would be funded by general revenues.

The EAI program would replace OASI for persons retiring on or after January 1, 1993. Supplemental Retirement Benefits (SRB) would first become available on that date, substituting for present Supplemental Security Income (SSI) benefits. Present Disability Insurance (DI) and Health Insurance (HI) would be unchanged, as would SSI benefits to the blind and disabled.

To be more specific: under the reform plan, any former taxpayer aged at least 62 who retires after 1992 will have the right to EAI annuity payments. The principal amount of the annuity will be taxes actually paid with respect to each individual's historical wages and self-employment income, plus interest, minus a pro rata share of EAI administrative expenses. This right, which may not be transferred, is to be automatically exercised through one of two forms:

Single Life Annuity (to be assigned non-married beneficiaries)—payment ceases upon the beneficiary's death.

Joint-Survivor Annuity (to be assigned married beneficiaries)—payment ceases upon the beneficiary's death or that of his spouse, whichever is later.

Payment levels will be determined actuarially based on principal amount and life expectancy; the present values of the two annuities will be the same for any individual at the time of retirement. In substance, EAI is indistinguishable from an annuity obtained in the open market.

Beginning January 1, 1993, payments to EAI annuitants and to OASI beneficiaries will be made from the EAI Cash Reserve. The Reserve will receive the assets of the Federal OASI Trust Fund, undertake its obligations, and become the recipient of wage and self-employment taxes. Appropriate adjustments will be made in the variable EAI tax rate so as to maintain the Reserve (which will consist of cash and interest-bearing government securities) at a level keyed to anticipated payments—specifically, assets will be kept above the projected needs for the next 3 months and below projected outlays for the next 12 months, excepting particular circumstances outlined below.

Since it will undertake the liabilities of OASI Trust Fund, the Reserve will for a long time be obliged to make OASI payments that include a substantial transfer element. The principle of separating insurance and transfer programs requires that the wage tax not fund this portion of the Cash Reserve's payments. Accordingly, the reform plan includes an appropriation to the Cash Reserve of funds equal to the transfer component of OASI payments.

Current Social Security law requires the maintenance of records of the earnings of all persons receiving wages and self-employment income. Under the reform proposal, this is extended to calculating the taxes paid thereon by employers, employees and the self-employed. These amounts will be added to an Individual Account for every person, which will be used to determine the principal amount of his EAI annuity.[2] However, in the case of legally married persons, one-half of these amounts will be added to the Individual Account of the spouse of the individual by whom and for whom the tax has been paid, and one-half of these amounts will be subtracted from the Individual Account of the individual by whom and for whom the tax has been paid—a procedure that continues unless there is a legal dissolution of the marriage.

Each year, every Individual Account will be credited with interest (approximately 2 percent real interest per annum) and debited a proportional amount of that year's EAI system administrative expenses. Also, at the time a taxpayer files for an EAI annuity, he will be credited with actuarially projected interest on the declining balance of his account.

Under the NFIB proposal, wage and self-employment taxes will support only the insurance system, not the transfer payments. Accordingly, employment taxes will be adjustable, set to keep the Cash Reserve at an appropriate level (between 3 and 12 months of projected payments). Cash Reserve levels will be monitored and, should receipts be too high or too low, the President, subject to one-House veto, will announce a new employment tax rate for the coming year. If his proposal is vetoed, the previous year's rate will continue in effect, subject, of course, to Congress's plenary law-making power.

To forestall any possibility that payroll tax rates would begin a downward spiral, thereby effectively causing the program to "self-destruct," a wage tax floor has been established. Regardless of the Cash Reserve's level, the wage tax could not fall below 6 percent—of taxable payroll 3 percent for employers and 3 percent for employees—and a comparable rate for the self-employed.

Other changes are also made in the tax laws. The self-employed will pay twice the employer's rate, rather than 150 percent of it, but half the payment is deductible. Beginning in 1984, new federal workers will constitute covered employees for wage tax purposes. No change is made, however, in the tax base or tax procedures, except that EAI taxes will be separately identified on W-2 forms. Persons aged 65 or more and receiving EAI benefits will not pay EAI taxes.

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[2] Both OASI taxes paid before Jan. 1, 1993, and EAI taxes paid thereafter (but not DI or HI taxes) will be credited.

As noted above, current OASI payments include a substantial transfer element. EAI payments will include no such elements, and the transfer component of OASI payments made out of the EAI Cash Reserve will be funded by general revenues. This transition from transfer funding by wage taxes to transfer funding by progressive income taxes will be phased in during the nine-year period from 1984 to 1993. In each of these transition years, wage taxes will be reduced by one-ninth of the overall transfer component,[3] so that by January 1, 1993, wage taxes will bear only the insurance costs. The transfer element will be borne by appropriations to the OASI Trust fund from general revenues.

Former taxpayers with resources below the Supplemental Retirement Benefit Ceiling who are 65 or over, or persons who are under 18 or over 55 and were dependents of a deceased taxpayer, are eligible, upon application, for Supplemental Retirement Benefits. Such benefits will be funded by general revenues. Resources are determined on the basis of money income, a new measure designed to estimate an individual's true purchasing power.

Benefit levels depend on income levels. Those below the Supplemental Retirement Benefit Base receive a full SRB payment, a payment which varies with the number of dependents and is indexed. Recipients whose income is below the Ceiling and above the Base receive a partial SRB payment, which is a full payment minus one-half the excess of their incomes over the Base.

Base and Ceiling levels are phased-in. While the Base is always $2,500 below the Ceiling, the Ceiling (and hence the Base) declines over a transition period beginning in 1993. The Ceiling and Base decline in annual steps thereafter until the final level is reached (Base=$2,000 1984 equivalency).

The SRB Base, Ceiling, and Benefit are to be inflation-indexed. Accordingly, the reform plan provides for a Retirement Price Index, so as better to measure changes in the price level that specifically affect retired persons. The RPI will be calculated on the basis of methods established by a Commission of prominent economists. Whenever the RPI changes by three percent or more, a corresponding change will be made in the Base, Ceiling and Benefit. The SRB system is a straightforward program of income support for the elderly.

ADVANTAGES OF THE PROPOSAL

The following is an abbreviated list of the advantages inherent in the reform proposal:

1. Benefit equity—Individuals in all generations and in all groups would be treated identically in the program's annuity portion. This is in sharp contrast to the mixture of "good deals" and "bad deals" unrelated to contributions, which is intrinsic to the existing benefit structure.
2. Social subsidies are directed to the poor only—Under the current benefit structure, social transfer payments are extended to beneficiaries regardless of need. The resulting subsidization of the relatively wealthy elderly means the problems of the needy poor are insufficiently addressed at the same time the system's entire cost mounts geometrically. Under the reform proposal, social subsidies are directed to the needy elderly only through the social subsidy portion of the program.
3. Reduced payroll taxes—SSA estimates that when the baby boom generation retires, OASI payroll taxes alone will reach over 15 percent of taxable payroll unless there are changes. Payroll taxes are clearly regressive and create disincentives for employment. The proposed reform would reduce the payroll tax over time to 6 percent, though it would rise somewhat after that.
4. Progressive tax support for social subsidies—The proposed reform would pay for social subsidies to the elderly through general revenues derived principally through personal and corporate income taxes. Most consider that the fair and equitable way to finance such a function. In contrast, excepting SSI, social subsidies for the elderly poor are financed through regressive payroll taxes of the 90+ percent of workers participating in the system. Those who do not participate do not pay taxes to support the elderly poor.
5. Benefit protection floor—While discussion of "replacement rations" under the reform is largely inapropriate due to the restructuring, retired workers aged 65, contributing 40 years, and entitled to 2 percent real interest would have a minimum replacement ratio of about 25 percent as a floor.

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[3] The transfer component is that portion of current benefits in excess of historical contributions by and on behalf of current beneficiaries (including contributions by now-deceased persons whose wages are the basis for others' benefits), plus interest.

6. Strengthens the " earned right"—Since annuity benefits would be based on contributions, the idea of Social Security as an earned right would be strengthened, and properly so. The earned right argument is now very difficult to make with such large social transfer elements in the benefit structure.

7. Women's concerns—By providing "split units of account," the reform proposal treats the marriage relationship as an economic unit. If for some reason a marriage dissolves, both partners would have contributed equally during the period for purposes of the annuity program. Currently, a marriage is not treated as an economic unit; each partner is an individual entity.

8. Public confidence—Public opinion polls demonstrate substantial support for Social Security but significant concerns, particularly among the young, that many current taxpayers will not receive any benefits when they retire. The "no benefits" idea is, of course, erroneous, but it does have some basis—the fact is, many future retirees will receive a negative return. Altering that fact, as the reform proposal does, and resolving the long-term financing problem, as the reform does, will foster public confidence in the program's efficacy.

9. Improved condition of poor elderly—The poorest elderly (just under 10 percent) are usually eligible for SSI—the current elderly direct support program. Eligibility criteria are rigid, and the benefit (depending on state supplements) is often less than $150/month. The reform liberalizes eligibility standards considerably and almost doubles existing benefits.

10. Reduction in total expenditures—The proposed reform is not magic, but there are significant changes which allow lower expenditures to occur. By reducing payroll taxes, future annuities are reduced (although they are maintained at a floor level). The difference is then divided among the poor (in the form of higher benefits) and among the taxpayers (in the form of lower taxes).

The proposed reform does involve substantial changes in the current Social Security program. Given the looming financial problem and the controversy surrounding it, the obvious question then becomes, why should a larger undertaking of this nature be attempted now? Even if the merits of the proposal are overwhelmingly positive, as they indeed are, why can't we wait?

The abbreviated answer can be found in the existence of our present problem. In 1977, we avoided long-term restructuring and went for the quick fix. Now we are paying for it, both figuratively and literally. Since most would prefer not to act upon the system's problems unless absolutely forced to do, the present situation provides a unique opportunity—particularly in light of the apparent bi-partisan nature of the current proceedings. Further, the logic of the reform proposal and its incorporation of ideas most Americans feel fair and equitable would give the Social Security system an immediate boost in the confidence it so badly needs.

Chairman **PICKLE**. Thank you, Mr. Dennis.

Mr. Fitch?

STATEMENT OF JOHN H. FITCH, JR., VICE PRESIDENT, GOVERNMENT RELATIONS, NATIONAL ASSOCIATION OF WHOLESALER-DISTRIBUTORS

Mr. **FITCH**. Thank you, Mr. Chairman. The National Association of Wholesale Distributors is a federation of 123 national wholesale distribution trade associations with a collective membership of 45,000 firms. Most of these firms are small to medium sized, closely held family owned businesses.

NAW commends the compromise package of the National Commission on Social Security Reform as a constructive first step in resolving the financing problems of the social security system. However, the Commission's proposal contains two fundamental flaws which preclude NAW's support for the compromise at this time.

First a failure by the Commission to adequately address the long-term financing problems confronting Social Security and an overemphasis on tax increase and other revenue considerations rather than long-term structural reforms. These two flaws will result in the need for additional tax increases in the near term and a failure to control mushrooming costs in the future.

Testimony given the other day by Health and Human Services Secretary Schweiker underscores the need for decisive congressional action to address the long-term solvency gap in our social security system.

Because wholesale distribution is a labor-intensive industry, spiraling payroll tax costs have a profound impact on the financial health and cash flow position of industry firms. These rising costs are draining already meager profits and preventing the reinvestment of capital into productivity-enhancing initiatives needed by industry firms to remain competitive.

Today payroll taxes represent 43 percent of the average after tax earnngs of $100,000 of a wholesaler-distributor with 40 employees, $4 million in annual sales, not a very big firm.

Specific positions taken on Commission package:

NAW supports expanding social security coverage.

NAW supports changes in benefit determination formulas to prevent windfall benefits.

NAW opposes the general revenue-type components of the package.

NAW believes the Commission's recommendations on the social security COLA issue are acceptable, but could be improved.

NAW opposed advancing scheduled tax rate increases and the Commission's emphasis on revenue-type solutions.

NAW is willing to support the compromise package if the committee strengthens the proposal with long-term solvency provisions, such as lifting the retirement age, deemphasizing the proposal's focus on tax and revenue considerations.

Mr. ANTHONY. Thank you, Mr. Fitch.

[The prepared statement follows:]

STATEMENT OF JOHN H. FITCH, JR., VICE PRESIDENT—GOVERNMENT RELATIONS, NATIONAL ASSOCIATION OF WHOLESALER-DISTRIBUTORS, WASHINGTON, D.C.

SUMMARY

The National Association of Wholesaler-Distributors (NAW) is a federation of 123 national wholesale distribution trade associations, with a collective membership fo 45,000 firms operating at 150,000 business locations nationwide. Most such firms are small- to medium-sized, closely-held, family-owned businesses (see Appendix).

NAW commends the "compromise" package of the National Commission on Social Security Reform as a constructive first step in resolving the financing problems of the Social Security system.

However, the Commission's proposal contains two fundamental flaws which preclude NAW support for the compromise at this time: (1) a failure by the Commission to adequately address the long-term financing problems confronting Social Security; and (2) an overemphasis on tax increase and other revenue considerations rather than long-term structural reforms.

These two flaws will result in the need for additional tax increases in the near term and a failure to control mushrooming costs in the future.

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NAW believes the Commission's recommendations on the Social Security COLA issue are acceptable, but could be improved.

NAW opposes advancing scheduled tax rate increases and the Commission's emphasis on revenue-type solutions.

Conclusion

NAW is willing to support the compromise package if the Committee strengthens the proposal with long-term solvency provisions, such as lifting the retirement age, deemphasizing the proposal's focus on tax and revenue considerations.

STATEMENT

Good Morning, Mr. Chairman, members of the Subcommittee. My name is John H. Fitch, Jr. and I am Vice President-Government Relations for the National Association of Wholesaler-Distributors (NAW). Accompanying me this morning is David P. Sloane, Director-Congressional Relations for the Association.

NAW welcomes this opportunity to share its views on the Social Security financing issue. The leadership of this important Subcommittee deserves substantial praise and recognition for the tireless effort it has put forth in working toward resolutions to this difficult problem over the past several years.

We will focus our comments this morning on the bipartisan "compromise" proposal offered by the National Commission on Social Security Reform. We have a number of comments to make about the focus of the Commission's recommendations, as well as their specific impact on the wholesale distribution industry.

The National Commission has done a commendable job of fashioning what we believe to be an important first step toward comprehensive reform. As with any sensitive or controversial issue there was substantial give-and-take as the Commission members sought to craft a compromise proposal acceptable to a multitude of interests. This was not an easy process to be sure.

In NAW's view, the compromise package contains some good and some bad points.

Perhaps most importantly, Commission's members did agree upon the scope of the financing problem—$150–$200 billion through 1990 and 1.8 percent of payroll over the course of the next 75 years ($1.6 trillion). This alone was a major concession for some Commission members and represents a critical starting point from which to proceed, although Health and Human Services Secretary Schweiker's testimony before the Committee the other day raised the spector of an even greater long-term deficit.

Before discussing the components of the Commission's package in detail let me say at the outset, we believe improvements can and should be made.

As the package now stands, it contains two fundamental flaws in our view. First, it fails to provide for an effective, long-term solution to the Social Security financing problem. In fact, according to Secretay Schweiker, it could be further off than we originally thought. Commission estimates say the proposal falls short of addressing the long-term deficit by .58 percent of payroll through the year 2056, a gap that could exceed $500 billion before all is said and done. Second, the proposal places far too much emphasis on tax and revenue considerations, and not enough on long-term structural reforms.

These two flaws alone beg the question, how long until the next payroll tax hike? Unless improvements in the focus and composition of the package are made, it will not be long.

For the wholesale distribution industry this proposal, in its present form, offers little hope of achieving long-term solvency, and for controlling the mushrooming costs of the program. Because of the labor-intensive nature of wholesale distribution, payroll tax costs weigh heavily in the financial operation and cash flow position of most industry firms. Given the already difficult economic circumstances confronting wholesaler-distributors at this time, more payroll tax increases would not be well-received.

Unless structural improvements can be made to ensure cost control and long-term solvency, NAW cannot support the Commission's proposal.

We urge this Committee to take a lead role in reshaping the Commission's package into farsighted, well-balanced legislation to resolve the short and long-term financing deficiencies of our Social Security system. If we had assurances that such legislation would fully resolve the long-term financing problem, without excessive reliance on tax increases, we would support and work towards its enactment.

Background information on the National Association of Wholesaler-Distributors and the industry, which should prove helpful in understanding our concerns about the Social Security financing issue, is contained in the Appendix which follows this statement.

NAW POSITION ON THE NATIONAL COMMISSION'S RECOMMENDATIONS

We have confined our comments to key recommendations which we support or believe need modification to improve the overall balance and effectiveness of the Commission package.

Expanded coverage

NAW heartily supports expanding the coverage of our Social Security system. Ideally, everyone should be covered, but as a practical matter there may be overriding constitutional problems with doing so. We believe, as a matter of equity, that all Americans should share equally in the burdens and responsibilities of Social Security. The Commission's approach of covering new civilian Federal hires and employees of non-profit organizations is a reasonable one, however, the Committee should consider the possibility of including all civilian Federal employees under Social Security.

Preventing windfall benefits

The current method for determining Social Security benefits does provide an unfair advantage for non-covered workers to qualify for relatively high benefits through short service in covered employment. NAW fully concurs with the approach taken by the Commission to eliminate this advantage which results in windfall benefits.

General revenue financing

NAW steadfastly opposes any form of general revenue financing, be it direct or indirect. The Commission's proposal contains two "backdoor" general revenue financing provisions, the taxation of Social Security benefits and the onetime, offsetting employee refundable tax credit for increased taxes in 1984. The proposal also contains some direct Treasury payments regarding military service wage credits.

The Association believes that general revenue financing of any kind would sever the relationship between taxes collected and funds paid out, frustrating any efforts or discipline to control costs.

Additionally, these provisions do nothing to address the imbalances that have developed in Social Security and will only serve to postpone effective resolutions to the problem.

Cost-of-living adjustment changes

Here the Commission stopped short of a timely solution to the problem of an overgenerous indexing formula, although the approaches taken clearly reflect a recognition by Commission members that the COLA issue is a serious one. With the overstatements of inflation that have occurred in the Consumer Price Index during various years since 1975 (when automatic indexing was implemented), benefits have risen faster than wages. This has not been a problem every year, but in certain years retirees have been doing better than the average worker.

The theory behind the indexing of benefits is to keep recipients whole against inflation—no more, no less. A substantial case has been made for, at the very least, shifting to a more representative barometer of inflation. Because of the unique income and consumer needs of the elderly, which are considerably different than for wage earners, the Committee should look into the possibility of a special Consumer Price Index for retirees. This idea has been advanced in many quarters and may have considerable merit.

In the absence of any alternative action, the Commission's recommendation of tying the change in formulas to the status of the reserve funds is acceptable. However, there is no reason to wait until 1987 to implement such a stand-by plan. This should be done as soon as possible. Additionally, the six-month COLA freeze and the shift to a calendar year adjustment basis are positive steps.

Advancing scheduled tax increases

NAW opposes tax increases as a means for reducing Social Security's shortfall. First, these increases have a disproportionate impact on wholesaler-distributors and other labor-intensive businesses. Second, they do little to ensure the long-term stability of this vital government program. The overemphasis on tax and revenue considerations in the Commission's proposal merely treats symptoms, not causes of the Social Security deficit.

As is discussed more fully in the Appendix to this statement, wholesale distribution is a labor-intensive business. Payroll taxes are taxes levied on people, thus industry firms are extremely sensitive to such taxes and tax increases.

Let us examine the impact of the Commission's tax increase recommendations on wholesaler-distributors. Before doing so, however, it is important to understand the already onerous nature of payroll taxes for this industry, and how much they have increased over the years.

In 1960 a wholesaler-distributor with 40 employees paid approximately $4,800 in annual payroll taxes. In 1972, because of successive tax increases, that cost had jumped to $16,500 per year; by 1976 it was $23,400, and today the figure has risen to approximately $43,000—an 889 percent increase in just 23 years.

Today this cost represents 43 percent of the average after tax earnings of $100,000 for such a wholesaler-distributor. While the argument can be made that these costs are tax deductible, the affect on cash flow is extremely negative.

Given the scheduled payroll tax rate increases through 1990, this wholesaler-distributor will be paying an additional $23,841 in payroll taxes over the next seven years, or a total tax tab of $391,902.

Advancing portions of these increases, as the Commission has recommended, would add another $8,042 to the cost of the scheduled increases for a total of $31,883 in new payroll taxes over the next seven years—a 25 percent increase over the increases enacted in the 1977 Social Security Amendments.

These increasing payroll tax burdens are squeezing already meager industry profits, eroding capital earmarked for reinvestment and discouraging the productivity gains industry firms need to remain competitive.

As the Congressional Budget Office has correctly characterized it, the payroll tax is a tax on employment. Further payroll tax increases, combined with already restrictive cash flow circumstances, will discourage wholesaler-distributors from providing new jobs, and are likely to result in significant job loss over the next several years. In 1982, wholesale distribution lost 122,000 jobs; increasing employment costs could discourage the reemployment of these displaced workers in the industry.

CONCLUSION

NAW looks forward to exploring with the Committee potential ways of improving the Commission's package.

One addition to the proposal that would substantially improve its long-term balance would be a provision to gradually lift the retirement age to reflect changing demographics. The Associations is not at all confident that steps will be taken by Congress in the years following enactment of a Commission-type package to ensure the long-term solvency of Social Security.

Inclusion of a retirement age increase provision in this package would be a sure sign of Congress' willingness to deal squarely with the long-term solvency gap issue now.

We sincerely hope Congress will take the necessary action to resolve the long-term Social Security financing problem through the adoption of a balanced reform package. Secretary Schweiker's testimony of the other day further underscores the seriousness of the problem and the need for decisive congressional action.

Failing this, we will all wind up looking at the same issues again a few years down the road.

Thank you, Mr. Chairman.

APPENDIX

ABOUT NAW AND THE WHOLESALE DISTRIBUTION INDUSTRY

The National Association of Wholesaler-Distributors is a federation of 123 national wholesaler-distributor trade associations (see attached list) which have a collective membership of approximately 45,000 firms nationwide, with 150,000 place of business.

The members of our affiliate associations are responsible for over 60 percent of the $1.16 trillion of merchandise which flowed through wholesale distribution channels in 1982.

They also employ a comparable percentage of the 5,290,000 Americans working in the wholesale trade sector in well-paying, year-round jobs. In 1982, average hourly earnings in the industry of $7.95 were ahead of the national hourly average of $5.46

by a full 32 percent. Moreover, the average annual wage in wholesale distribution in 1982, according to the U.S. Department of Commerce, was $15,833—$4,938 higher than the national median annual wage of $10,895.

While industry sales topped $1.16 trillion in 1982, wholesale distribution continues to be dominated by small- to medium-sized, closely-held, family-owned buisnesses. The typical wholesaler-distributor employs from 30 to 50 people, has annual sales in the $3–$5 million range and has an after tax profit of $100,000–$150,000.

Because wholesale distribution is a labor-intensive, as opposed to capital-intensive business, most of the costs beyond financing inventory are related to the costs of employment. Payrolls typically run from $600,000 to $1,000,000 or more annually for firms in many commodity lines. Employer payroll taxes under the current rate of 6.7 range from $40,000 to $70,000 in these companies. Combined with the other benefits commonly offered by most wholesaler-distributors, payroll or employment costs can easily consume 25 percent of a firm's weekly gross earnings. When added to the other costs of doing business, such as the financing of substantial inventories, energy, transportation, office equipment and other costs, it is easy to see why restrictive cash flow is a constant problem for many industry firms.

Difficult economic times have substantially impacted the wholesale distribution sector. Weak sales during this prolonged recession have cut deeply into already thin profit margins. Record interest rates through 1981 and 1982 have kept operating and inventory costs high and for many the adjustment period is far from over. A substantial portion of the industry in the durable goods business is directly connected to the construction, automotive and industrial sectors of our economy and has suffered accordingly.

Despite difficult economic times, wholesaler-distributors continue to fulfill an important function in our society. They make goods and commodities of every description available at the place and time of need. Wholesaler-distributors purchase goods from producers, inventory these goods, break bulk, sell, delivery and extend credit to retailers and industrial, commercial, institutional, governmental and contractor business users.

Wholesaler-distributors are essential to the efficient satisfaction of consumer and business needs. Further, by the market coverage which they offer smaller suppliers and the support which they provide to their customers, wholesaler-distributors preserve and enhance competition, the critical safeguard of our economic system. Accoring to an NAW survey, the typical wholesaler-distributor established market connections between 133 manufacturers and 533 business customers. Many of these manufacturers are themselves small businessmen who must rely on wholesaler-distributors to establish, maintain and nurture markets for thier products. The majority of customers are small businessmen, also, who look to the merchant wholesaler-distributor to provide merchandise availability, credit and other critical services.

NATIONAL WHOLESALER-DISTRIBUTOR ORGANIZATIONS AFFILIATED WITH THE NATIONAL ASSOCIATION OF WHOLESALER-DISTRIBUTORS

Air-conditioning & Refrigeration Wholesalers.
American Dental Trade Association.
American Jewelry Distributors Association.
American Machine Tool Distributors' Association.
American Supply Association.
American Surgical Trade Association.
American Traffic Services Association.
American Veterinary Distributors Association.
Appliance Parts Distributors Association, Inc.
Associated Equipment Distributors.
Association of Footwear Distributors.
Association of Steel Distributors.
Automotive Service Industry Association.
Aviation Distributors & Manufacturers Association.
Bearing Specialists Association.
Beauty & Barber Supply Institute, Inc.
Bicycle Wholesale Distributors Association, Inc.
Biscuit & Cracker Distributors Association.
Ceramic Tile Distributors Association.
Ceramics Distributors of America.
Coated Abrasives Fabricators Association.
Cooperative Food Distributors of America.
Copper & Brass Servicenter Association.

Council for Periodical Distributors Association.
Council of Wholesale-Distributors American Institute of Kitchen Dealers.
Distributors Council, Inc.
Door & Hardware institute.
Drug Wholesalers Association.
Electrical-Electronics Materials Distributors Assn.
Explosive Distributors Association, Inc.
Farm Equipment Wholesalers Association.
Flat Glass Marketing Association.
Fluid Power Distributors Association, Inc.
Food Industries Suppliers Association.
Foodservice Equipment Distributors Association.
General Merchandise Distributors Council.
Hobby Industry Association of America.
Independent Medical Distributors Association.
The Irrigation Association.
Institutional & Service Textile Distributors Association, Inc.
International Ceramic Association.
Machinery Dealers National Association.
Mass Merchandising Distributors Association.
Material Handling Equipment Distribution Association.
Monument Builders of North America-Wholesale Div.
Motorcycle Industry Council.
Music Distributors Association.
National-American Wholesale Grocers' Association.
National Appliance Parts Suppliers Association.
National Association of Aluminum Distributors.
National Association of Chemical Distributors.
National Association of Container Distributors.
National Association of Decorative Fabric Distributors.
National Association of Electrical Distributors.
National Association of Fire Equipment Distributors.
National Association of Floor Covering Distributors.
National Association of Manufacturing Opticians.
National Association of Marine Services, Inc.
National Association of Meat Purveyors.
National Association of Plastics Distributors.
National Association of Recording Merchandisers, Inc.
National Association of Service Merchandising.
National Association of Sporting Goods Wholesalers.
National Association of Textile & Apparel Distributors.
National Association of Tobacco Distributors.
National Association of Writing Instrument Distributors.
National Beer Wholesalers Association.
National Building Material Distributors Association.
National Business Forms Association.
National Candy Wholesalers Association.
National Commercial Refrigeration Sales Association.
National Electronic Distributors Association.
National Fastener Distributors Association.
National Food Distributors Association.
National Independent Bank Equipment Suppliers Assn.
National Industrial Belting Association.
National Industrial Glove Distributors Association.
National Lawn & Garden Distributors Association.
National Locksmiths' Suppliers Association.
National Marine Distributors Association.
National Paint Distributors, Inc.
National Paper Trade Association, Inc.
National Plastercraft Association.
National Sash & Door Jobbers Association.
National School Supply & Equipment Association.
National Solid Wastes Management Association.
National & Southern Industrial Distributors Associations.
National Spa and Pool Institute.
National Truck Equipment Association.
National Welding Supply Association.

National Wheel & Rim Association.
National Wholesale Druggists' Association.
National Wholesale Furniture Association.
National Wholesale Hardware Association.
Northamerican Heating & Airconditioning Wholesalers.
North American Wholesale Lumber Association, Inc.
Optical Laboratories Association.
Outdoor Power Equipment Distributors Association.
Pet Industry Distributors Association.
Petroleum Equipment Institute.
Power Transmission Distributors Association, Inc.
Safety Equipment Distributors Association, Inc.
Scaffold Industry Association.
Shoe Service Institute of America.
Specialty Tools & Fasteners Distributors Association.
Spring Service Association.
Steel Service Center Institute.
Textile Care Allied Trades Association.
Toy Wholesalers' Association of America.
United Pesticide Formulators & Distributors Association.
Wallcovering Distributors Association.
Warehouse Distributors Association for Leisure & Mobile Products.
Watch Materials & Jewelry Distributors Association.
Water and Sewer Distributors Association.
Wholesale Florists & Florist Suppliers of America.
Wholesale Stationers' Association, Inc.
Wine & Spirits Wholesalers of America, Inc.
Wood Heating Alliance.
Woodworking Machinery Distributors Association.

Mr. ANTHONY [presiding]. Dr. Jack Carlson is our next witness. He represents the National Association of Realtors. He is executive vice president and chief economist.

Dr. Carlson?

STATEMENT OF JACK CARLSON, EXECUTIVE VICE PRESIDENT AND CHIEF ECONOMIST, NATIONAL ASSOCIATION OF REALTORS

Mr. CARLSON. On behalf of over 600,000 members of the National Association Realtors, we recommend support for the Commission's compromise and recommend finding other provisions to completely close the gap between receipts and benefits. The trust fund must be made whole in fairness to all persons.

However, we strongly recommend an important technical change. The proposed deductibility of 50 percent of the old age survivors and disability insurance tax for personal income should be changed to a 25-percent refundable tax credit.

Without the technical change the proposal of the Commission would greatly increase the tax burden on lower income workers. I draw your attention to page 6 of my testimony; table 3. As you will see, for lower income the effective tax burden after tax is 41.6 percent for the lowest income and 6.2 percent for the highest income, very regressive.

Without the technical change it would be unfair to self-employed workers in every State. I refer to page 10, and if I can just choose a particular State at random, in the case of Arkansas, there are 85,735 self-employed workers. An increase in the tax during the 6-year period is $129 million. In the case of Texas, another random State, 483,982 self-employed, a tax burden above what would be required on their counterparts as employee workers, would be $731 million.

Mr. **Archer**. Texas is not random; it is next to Arkansas.

Mr. **Carlson**. Without this technical change it would penalize the smallest businesses. Already small business, self-employed people have no unemployment insurance that is provided. They can't deduct health insurance premiums as corporations do. They do not have the benefit of Federal Government loans for the unemployment programs in the various States at subsidized interest rates.

The effective tax rate is 33 percent for corporations; 18 percent for the self-employed. So any deduction is more valuable to a corporation than to a self-employed worker. Without the technical change it discourages the dream of self-employment for many Americans.

Many of us want to be our own boss; to work according to our own schedules; to reap the rewards of our efforts and to call no one else our superior, and we ought to maintain this dream for those who wish to take part in it. Without the technical change it would discourage inventive and energetic workers.

Some of the great inventions have come from inventors who were self-employed. Every family has benefited from the automatic development and printing of photographs, as was pioneered by inventor Land. Some of our best designed buildings were done by architects who were self-employed and so it goes with many other people.

With the fragile recovery of this economy, we certainly would not like to discourage this kind of participation in our economy.

People have not chosen to go to self-employment in such numbers as to suggest there is a huge advantage in this tax. Without the technical change it would reduce the incentive for self-employed workers to cont[illegible] a full and productive life. It is interesting to note that [illegible] the people who work over age 65, there is a larger proportion [illegible] self-employed workers of all ages. Consequently they contribute f[illegible] years than the average employed workers and draw less o[illegible]s of the social security system because they are more [illegible]ve for a longer time in their life.

Without the technical change, the program is unfair to women. Women carry an important responsibility in our society by bearing the next generation of Americans. In many cases they also carry the responsibility of rearing the next generation. Self-employment is particularly helpful to women, so that they can exit and enter the work force and so that they can have gainful work that will match their scheduled requirements.

Self-employed women have grown in the last 30 years from 11 percent of self-employed workers to 26 percent in 1980 and estimated to be 30 percent in 1984. The trend should continue in the future and we can expect women to be a larger percentage of the self-employed than men in the long run.

It is particularly important—in fairness to women and in order to take care of their unique needs for flexibility in their careers—not to enact a huge and unfair and regressive tax on self-employed women.

I would be pleased to respond to any questions.

[The prepared statement follows:]

STATEMENT OF DR. JACK CARLSON ON BEHALF OF THE NATIONAL ASSOCIATION OF REALTORS

I am Jack Carlson, Executive Vice President, Chief Staff Officer, and Chief Economist of the National Association of Realtors.

On behalf of the over 600,000 members of the National Association, the nation's largest trade association, we greatly appreciate the opportunity to submit our views on the financing of the Social Security System.

The National Commission on Social Security Reform (Commission) proposed a combination of ways to close two-thirds of the gap between receipts and benefit payments in the Social Security program.

RECOMMENDATIONS

We recommend that other provisions be identified to close the entire gap between receipts and benefits. The Trust Fund must be made whole in fairness to all Americans.

We strongly recommended an important technical change. Self employed workers should pay their fair share of additional taxes to make the Trust Fund whole. However, the Commission proposal would increase the self-employed workers tax by 20 percent to 40 percent, or $300 to $600 more each year than the increase proposed on employee workers and employers.

The Commission's proposed tax increase on self-employed workers would:

Be grossly unfair and discriminatory;

Greatly increase the tax burden on lower income workers;

Be unfair to self-employed workers in every state;

Penalize the smallest of small business;

Increase business concentration;

Discourage the dream of self-employment for many Americans;

Discourage inventive and energetic workers;

Reduces the incentive for self-employed workers to continue with a full and productive life; and

Be unfair towards women.

If a change in the structure of self-employment taxes is necessary, the technical improvement can be made by merely changing the proposed deductibility of 50 percent of the Old Age, Survivors and Disability (OASDI) tax from personal income to a 25 percent refundable tax credit. Such a modest change would provide the same dollar input for the Fund as under the Commission's proposal and yet maintain a fair increase of tax burden for the self/employed worker.

Alternatively, a tax credit with 3 year carry-forward and carry-back provision would not be as fair as a refundable tax credit but would be better than the Commission's proposal. The Commission itself identified this as a reasonable alternative.

The Commission, Republican and Democratic leaders in the Congress, and the President, recognized the need for technical improvements such as this recommendation.

BACKGROUND

Presently, the self-employed Social Security tax rate is 9.35 percent compared with 6.7 percent for an employee and 13.4 percent combined for employee-employer. Of this, the self-employed tax rate for the OASDI alone (exclusive of Health Insurance (HI)) is 8.05 percent compared to 5.40 percent for the employee workers, and 10.80 percent combined for the employee-employer. The Social Security Commission has recommended that the self-employed Social Security tax rate be increased to the combined employee-employer OASDI payroll tax rate which is to be 11.4 percent in 1984. The self-employed HI payroll tax rate would remain 1.3 percent for 1984. The self-employed, according to the Social Security Commission's recommendations, would have their Social Security taxes increased from 8.05 percent to 11.40 percent, a $603 increase, or 41.6 percent tax increase for a typical self-employed worker (see Table 5).

In conjunction with this self-employed Social Security tax increase, the Commission would allow the self-employed a personal income tax deduction equal to one-half the OASDI Social Security tax payment. Apparently this idea was adopted by the Commission in the belief that the huge Social Security tax increase would be offset from personal income tax, resulting in little net increased out-of-pocket loss to the self-employed worker. An analysis of this proposal, including the income tax deduction, indicates however, that there would be little offsetting effect for the vast majority of the self-employed and the increase in tax burden on self-employed workers would be far greater than the new tax burden on employee workers, a $439 increase, or 30.3 percent increase for a typical self-employed workers, after adjusting for a personal income tax deduction.

DISCUSSION

1. The Commission's proposal for increasing the self-employed workers tax is unfair and discriminatory in comparison with employee workers

Beginning in 1984 the Commission's proposal would increase the after-tax burden on the self-employed person by the largest increase in U.S. history. In sharp contrast, an employee earning the same income would experience no increase in after-tax burden in 1984, 1985, 1986, and 1987. Only in 1988 would the employee worker experience a modest increase and only by bringing the established increase for 1990 forward to 1988 and 1989. In 1990 and afterwards the employee worker would experience no increase in after-tax burden. Under the Commission's proposal, the 0.3 percentage point increase in 1984 would be totally offset by a refundable tax credit. For 1985, the increase was previously scheduled by the tax law passed in 1977. Thus, the tax burden increase proposed on employee workers is zero except for 2 years, 1988 and 1989, and then only a modest increase is proposed (see Tables 1 and 2).

TABLE 1.—THE CHANGE PROPOSED BY THE COMMISSION ON OASDI TAX ON EMPLOYEE WORKERS IN 1984 [1]

	Current law effective tax rate (percent)	Proposed		
		Effective tax rate [2] (percent)	Increase in tax burden	
			Dollars	Percent
$5,000	5.40	5.40	0	0
$10,000	5.40	5.40	0	0
$14,000	5.40	5.40	0	0
$18,000	5.40	5.40	0	0
$22,000	5.40	5.40	0	0
$34,000	5.40	5.40	0	0
$40,000	5.06	5.06	0	0
$54,000	3.75	3.75	0	0
$70,000	2.89	2.89	0	0
$90,000	2.25	2.25	0	0
$120,000	1.69	1.69	0	0
$170,000	1.19	1.19	0	0

[1] Maximum taxable earnings of $37,500.

[2] Reflects refundable tax credit proposed for employee workers.

TABLE 2.—THE CHANGE PROPOSED BY THE COMMISSION ON OASDI TAX ON EMPLOYEE WORKERS IN 1985 [1]

	Current law effective tax rate (percent)	Proposed		
		Effective tax rate [2] (percent)	Increase in tax burden	
			Dollars	Percent
$5,000	5.70	5.70	0	0
$10,000	5.70	5.70	0	0
$14,000	5.70	5.70	0	0
$18,000	5.70	5.70	0	0
$22,000	5.70	5.70	0	0
$34,000	5.70	5.70	0	0
$40,000	5.70	5.70	0	0
$54,000	4.28	4.28	0	0
$70,000	3.30	3.30	0	0
$90,000	2.57	2.57	0	0
$120,000	1.92	1.92	0	0
$170,000	1.36	1.36	0	0

[1] Maximum taxable earnings of $40,500.

In sharp and unfair contrast, the tax burden would increase for the self-employed workers at all income levels (see Tables 3 and 4).

TABLE 3.—THE CHANGE PROPOSED BY THE COMMISSION ON OASDI TAX ON SELF-EMPLOYED WORKERS IN 1984 [1]

	Current law effective tax rate (percent)	Proposed		
		Effective tax rate [2] (percent)	Increase in tax burden	
			Dollars	Percent
$5,000	8.05	11.40	168	41.6
$10,000	8.05	10.72	267	33.2
$14,000	8.05	10.60	357	31.7
$18,000	8.05	10.48	439	30.2
$22,000	8.05	10.37	510	28.8
$34,000	8.05	9.80	595	21.7
$40,000	7.55	8.92	549	18.1
$54,000	5.59	6.41	442	14.7
$70,000	4.31	4.82	355	11.8
$90,000	3.35	3.68	293	9.9
$120,000	2.52	2.69	209	6.7
$170,000	1.78	1.89	194	6.2

[1] Maximum taxable earnings of $37,500.

[2] The increase in the tax burden is calculated by adjusting for the 50 percent deductibility of OASDI tax taken from personal income taxes, based on the effective personal and income tax rate for each income level.

TABLE 4.—THE CHANGE PROPOSED BY THE COMMISSION ON OASDI TAX ON SELF-EMPLOYED WORKERS IN 1985 [1]

	Current law effective tax rate (percent)	Proposed		
		Effective tax rate [2] (percent)	Increase in tax burden	
			Dollars	Percent
$5,000	8.55	11.40	143	33.3
$10,000	8.55	10.72	217	25.4
$14,000	8.55	10.60	287	24.0
$18,000	8.55	10.48	347	22.6
$22,000	8.55	10.37	400	21.3
$34,000	8.55	9.80	425	14.6
$40,000	8.55	9.52	388	11.3
$54,000	6.41	6.93	279	8.1
$70,000	4.95	5.21	184	5.3
$90,000	3.85	3.98	119	3.4
$120,000	2.86	2.91	29	1.7
$170,000	2.04	2.04	0	0.0

[1] Maximum taxable earnings of $40,500.

[2] The increase in the tax burden is calculated by adjusting for the 50 percent deductibility of OASDI tax taken from personal income taxes, based on the effective personal and income tax rate for each income level.

The Commission would impose a $439 increase, or 30 percent increase, in tax burden in 1984. The increase would be 23 percent in 1985 (see Tables 5 and 6).

TABLE 5.—COMMISSION'S PROPOSED OASDI TAX BURDEN ON A TYPICAL SELF-EMPLOYED WORKER AND EMPLOYEE WORKER WITH THE SAME INCOME IN 1984 [1]

	Current law				Commission's proposal				Increase			
	Before-tax		After-tax [2]		Before-tax		After-tax [2]		Before-tax		After-tax [2]	
	Rate (percent)	Dollars	Rate (percent)	Dollars	Rate (percent)	Dollars	Rate (percent)	Dollars	Percent	Dollars	Percent	Dollars
Self-employed	8.05	1,449	8.05	1,449	11.40	2,052	10.49	1,888	41.6	603	30.3	439
Employee	5.40	972	5.40	972	5.70	1,026	5.40	972	5.6	54	0.0	0
Employer	5.40	972	3.62	651	5.70	1,026	3.82	687	5.6	54	5.5	36

[1] Typical self-employed person has an income of $18,000. The average income for Realtor® sales persons is $18,000.

[2] After-tax adjustment for deduction for self-employed and employer and credit for employees in 1984. For employer, assumes average effective corporate income tax for 1982 of 33 percent.

TABLE 6.—COMMISSION'S PROPOSED OASDI TAX BURDEN ON A TYPICAL SELF-EMPLOYED WORKER AND EMPLOYEE WORKER WITH THE SAME INCOME IN 1985, 1986, AND 1987 [1]

	Current law				Commission's proposal				Increase			
	Before-tax		After-tax [2]		Before-tax		After-tax [2]		Before-tax		After-tax [2]	
	Rate (percent)	Dollars	Rate (percent)	Dollars	Rate (percent)	Dollars	Rate (percent)	Dollars	Percent	Dollars	Percent	Dollars
Self-employed	8.55	1,539	8.55	1,539	11.40	2,052	10.49	1,888	33.3	513	22.7	349
Employee	5.70	1,026	5.70	1,026	5.70	1,026	5.70	1,026	0.0	0	0.0	0
Employer	5.70	1,026	3.82	687	5.70	1,026	3.82	687	0.0	0	0.0	0

[1] Typical self-employed person has an income of $18,000. The average income for Realtor® sales persons is $18,000.

[2] After-tax adjustment for deduction for self-employed and employer and credit for employees in 1984. For employer, assumes average effective corporate income tax for 1982 of 33 percent.

The tax burden on the self-employed would continue in every future year beyond 1988. During the next 10 years the unfair tax burden would be approximately $3,600 for a typical self-employed worker above what would be paid by the employee worker. Thus, the tax burden would increase about 25 percent higher for the average self-employed worker than the increase in tax burden for the employee worker.

2. *The Commission's proposed self-employed worker tax increase would be regressive and greatly increase the tax burden on lower income self-employed workers in contrast to upper income self-employed workers*

This is clear by reviewing Tables 3 and 4. The tax burden for lower income self-employed workers would increase by 20 to 40 percent while the increase in tax burden for upper income self-employed would not increase at all and would only go as high as 10 pecent.

The Commission's proposal of the deductibility of one-half the OASDI tax is of limited value except for the very few self-employed persons with very high incomes and subject to the 50 percent personal income tax rate. These few rich self-employed people would be treated fairly while 99 percent of the self-employed workers with lower incomes, would experience an increase in tax burden.

The Commission may have seen a "tax deduction" as an offset that would result in little net increase in tax payments by the self-employed workers as indicated by Commission staff working papers. For example, the following footnote from the Commission's options paper:

"In conjunction with this proposal, a tax credit for the self-employed equal to 25 percent of the self-employment tax could be provided. *Alternatively,* 50 percent of the payroll tax paid by the self-employed could be made tax deductible as a business expense." (Emphasis supplied.)

Clearly, the tax deduction does not provide satisfactory or fair offset. It approaches full offset only for those self-employed taxpayers in the highest of tax brackets.

Even the tax credit, if not made refundable, would not remove the burden that this self-employed tax increase would place on the lowest income self-employed workers that have little or no income tax liability.

When considering propsed benefit changes, the Commission proposes that the tax burden should fall on those most able to afford it—Social Security recipients whose other income exceeds $20,000—who would pay personal income taxes for the first time on their Social Security benefit payments. The Commission in sharp contrast recommends perhaps the greatest share of the tax change in case of self-employed workers, on those least able to bear it—in fact the tax increase on the self-employed workers is the largest tax increase in U.S. history.

This sharp and ugly difference in treatment, suggests that the results of the Commission's proposal affecting self-employed may not have been intended or understood.

3. The Commission's proposed tax increase would be unfair to self-employed workers in every State of the Union

In the State of Texas, for example, 483,982 self-employed workers would pay $731.3 million increase in after-tax personal income tax burden from 1984 to 1989, that is, if the self-employed workers in Texas are not driven to abandon their choice of being self-employed because of this heavy tax burden (see Table 7).

TABLE 7.—INCREASE IN AFTER-TAX BURDEN ON SELF-EMPLOYED WORKERS IN EACH STATE: 1984–89

	Number	Excessive tax [1]
Alabama	101,432	$153,273,795
Alaska	12,362	18,680,206
Arizona	64,653	97,697,085
Arkansas	85,735	129,554,074
California	803,909	1,214,786,097
Colorado	110,688	167,260,528
Connecticut	74,555	112,659,987
Delaware	12,796	19,336,023
District of Columbia	11,104	16,779,243
Florida	275,690	416,594,887
Georgia	147,001	222,133,066
Hawaii	23,388	35,341,584
Idaho	45,661	68,998,292
Illinois	292,254	441,624,731
Indiana	138,277	208,950,238
Iowa	150,356	227,202,803
Kansas	108,905	164,566,238
Kentucky	106,567	161,033,289
Louisiana	104,617	158,086,646
Maine	38,133	57,622,739
Maryland	91,061	137,602,187
Massachusetts	127,346	192,432,415
Michigan	187,536	283,385,465
Minnesota	183,037	276,587,030
Mississippi	74,040	111,881,771
Missouri	182,079	275,139,397
Montana	38,645	58,396,421
Nebraska	92,388	139,607,416
Nevada	22,040	33,304,622
New Hampshire	29,396	44,420,267
New Jersey	158,628	239,702,614
New Mexico	37,620	56,847,545
New York	402,160	607,703,580
North Carolina	181,783	274,692,112
North Dakota	46,264	69,909,485
Ohio	246,735	372,841,015
Oklahoma	126,537	191,209,936
Oregon	102,921	155,523,822
Pennsylvania	292,178	441,509,888
Rhode Island	19,495	29,458,875
South Carolina	77,779	117,531,770
South Dakota	51,184	77,344,092
Tennessee	136,611	206,432,747

TABLE 7.—INCREASE IN AFTER-TAX BURDEN ON SELF-EMPLOYED WORKERS IN EACH STATE: 1984–89—Continued

	Number	Excessive tax [1]
Texas	483,982	731,344,723
Utah	39,774	60,102,452
Vermont	21,688	32,772,715
Virginia	124,498	188,128,805
Washington	130,466	197,147,044
West Virginia	36,922	55,792,798
Wisconsin	147,862	223,434,122
Wyoming	16,962	25,631,261
Total U.S.	[2] 6,617,700	10,000,000,000

[1] Based on a net tax increase of $10 billion over 1984–89.

[2] This figure, based on the 1980 Census, is 1.861 million less than the number of self-employed workers reported by the Bureau of Labor Statistics which is based on the Current Population Survey (CPS). The cause of this discrepancy is believed to be due to a more expansive definition of self-employed by the CPS.

Source: U.S. Department of Commerce, Bureau of the Census, "1980 Census of Population and Housing, Provisional Estimates of Social, Economic, and Housing Characteristics" PHC80–S1–1.

4. The Commission's proposal would hurt the smallest of small business

Self-employed workers are already disadvantaged by the fact:

(1) They do not have the financial protection from unemployment which is provided to employed workers through unemployment compensation programs which are, in part, now subsidized by loans from the Federal government.

(2) They do not have the protection from liability which the corporate form provides for most employed workers through corporations' limited liability.

(3) They are not able to treat as a business expense the cost of insurance premiums for health insurance. This contrasts with the ability of employers to expense this common item of cost of employee workers.

(4) They are not able to treat as a business expense all of the costs of providing pensions.

In addition, deductions of the cost of employed workers, most of whom work for corporations, are of much greater value than are deductions for self-employed workers. The average effective income tax rate (Federal, State and local) on corporations is about 33 percent compared to an average 18 percent or less for self-employed workers. Thus, the Commission's proposal to allow a 50 percent deduction of the OASDI tax for both employee and employer, and to allow a 50 percent deduction for OASDI for the self-employed, does not have the same value. It is much less valuable to the self-employed.

5. The Commission's proposal for heavily taxing the self-employed workers would likely increase business concentration

6. The Commission's huge tax on self-employment would discourage the dream of many Americans to be self-employed

Many of us want to be our own boss, to work according to our own schedules, to innovate in our own way, to reap rewards of our own efforts and to call no one else our supervisor.

The huge tax increase proposed by the Commission would penalize more than 6 million Americans who choose to be their own boss and make it difficult if not impossible to achieve their dream of working as a self-employed person. The American dream must be kept alive. It must not be undermined by unfair and unwise tax increases. The American dream of self-employment should remain viable in the future as it has in the past.

7. The Commission's proposal would reduce innovation and energy in the work place

Some of the nation's greatest inventions came from inventors who were self-employed. Every family has benefited from the automatic development and printing of photographs, as was pioneered by inventor Land. Some of our best designed buildings were done by architects who were self-employed. New products have been introduced and provided for consumers across the entire economy by direct sales people. Some of the best art and music has come from self-employed people. Thus, we are finding among the self-employed: inventors, architects, doctors, nurses, builders, beauticians, taxicab drivers, truck drivers, musicians, direct sales people, farmers, and others. They are all providing an incentive for extra work, extra pride and extra accomplishment from which all Americans have benefited.

The proposed tax increase would dampen incentive for unique and important contributions to our society. Particularly at this time of a fragile economic recovery we should not discourage self-employment which leads to important innovations, risk-taking and extra energy from people who choose to be their own boss.

Already we have discouraged self-employment by the existing heavy payroll tax burden on the self-employed who under existing law pay 150 percent of the tax burden on employee workers and who would be required under the Commission proposal to pay 200 percent. Since the 150 percent tax burden was imposed 30 years ago, the proportion of the work force who are self-employed has dropped from 14 to 8 percent. Undoubtedly the existing tax burden was an important reason for that drop and a further increase in that tax burden could cause the drop to be even greater at a greater loss for all Americans (see Table 8).

TABLE 8.—SELF-EMPLOYED WORKERS

Year	Number [1] (millions)	Male (millions)	Percent	Female (millions)	Percent	Percent of civilian labor force
1950	8.624	7.657	88.8	0.967	11.2	13.9
1965	8.520	6.964	81.7	1.556	18.3	11.4
1980	8.478	6.246	73.7	2.232	26.3	8.1

[1] Represent total self-employed: only about 6,500,000 are covered by Social Security.

Source: U.S. Department of Commerce, Bureau of the Census.

Even the most cautious observer can realize from these statistics that the condition of self-employed workers is already fragile because there has been no expansion in their numbers and in fact the proportion of Americans who are self-employed has declined.

8. Self-employed workers have an incentive to continue with a full and productive life

There tends to be a larger proportion of self-employed workers that are working after age 65 than in the case of employed workers. Obviously, when they work longer of their own choice, they tend to start drawing retirement benefit payments at a later age. Self-employment increases the opportunities for older workers to remain active. This tax increase is anti older people.

9. The Commission's proposal would be particularly unfair to women

Women carry an important responsibility in our society by bearing the next geneation of Americans. In many cases, they also carry the responsibility of rearing the next generation. Self-employment is particularly helpful to women so that they can exit and enter the work place and so they can have gainful work that will match their unique schedule requirements.

Self-employed women have grown in the last 30 years from 11 percent of self-employed workers to 26 percent in 1980 and estimated to be 30 percent in 1984. The trend should continue in the future and we can expect women to be a larger percentage of the self-employed than men in the long run.

It is particularly important—in fairness to women and in order to take care of their unique needs for flexibility in their careers—not to enact a huge and unfair and regressive tax on self-employed women (see Table 9).

TABLE 9.—SELF-EMPLOYED WOMEN WORKERS

Years	Millions	Percent	Proposed annual tax burden above that proposed for employee workers
1950	1.0	11	N/A
1965	1.6	18	N/A
1980	2.2	26	N/A
1984 [1]	2.5	30	$450,000,000
1995 [1]	3.4	40	600,000,000

TABLE 9.—SELF-EMPLOYED WOMEN WORKERS—Continued

Years	Millions	Percent	Proposed annual tax burden above that proposed for employee workers
2010 [1]	4.7	55	800,000,000

[1] In constant dollars, 1982.

CONCLUSION

If Congress feels that the traditional tax structure of self-employed workers must be changed, the only tax that can be fair is to change the 50 percent deductibility provision to a 25 percent refundable tax credit in each and every future year.

A less fair provision, but better than the Commission's proposal, would be the adoption of a 25 percent non-refundable tax credit with the ability to carry it backward and forward for 3 years to take into account the greater fluctuation in the income of self-employed workers as compared to employee workers.

Mr. ANTHONY. Thank you for your testimony, and the other three members of the panel.

This weekend there were several Democratic House Members who stayed in Washington and held an issues forum. One of the issues we studied was social security and I happened to be on a little task force where we broke into small groups. I must tell you that some Members of Congress have already expressed your very same sentiment, maybe not the solution; but at least they raised the issue that it looked like this could be a troublesome area and that it could be detrimental to small business and it was stated that whatever the subcommittee does, to take a hard look at it to make sure that the burden does fall evenly and does not cause any undue burden. I thank you for that note.

Just out of curiosity, has NFIB been taking a position other than you don't want the tax at all?

Mr. DENNIS. Yes. We have taken the position that at the time we prefer a deduction to a credit. While we recognize that credit gives us a better deal immediately, in the long term we think it doesn't, for two reasons.

One, if we have a credit rather than a deduction, we don't feel that we can argue very well for the deductibility of such other items as private health insurance, which should also be deductible. Self-employed individuals are half employer and half employee, and there are a number of things that they ought to be able to deduct, at least half.

We also oppose the tax credit for employees in 1984. It is pretty difficult for us to come in and argue that employees shouldn't receive a tax credit and then turn around and say self-employed should receive a tax credit. We think in the long run that if we receive a tax credit, then eventually employees and those in other situations or conditions will receive one as well.

We see that as being very counterproductive in the long term.

Mr. ANTHONY. Talking about educating the public, which I think has got to be done, let me show you the horns of the dilemma that you have got this subcommittee in.

I happen to have in my office a little statute that says a guardian of small business, it was awarded from NFIB, and I also have a report card sitting in my office that has come from the National

Association of Realtors, and when this Congress is graded I am either going to have to get a low grade or I have to give up my little guardian and not get another one.

Yet I consider myself to be a friend of both industries so you can see the dilemma that you have put the members of the subcommittee and the members of the full committee.

Is there any way that you two gentlemen representing your associations can work together to help us mediate the differences between your two organizations, inasmuch as you do represent a great deal of the independent business people out in the countryside? We are going to face this same problem.

Mr. CARLSON. If in fact the commission had not reported, we would have strongly argued that the existing tax structure should continue, and the revenues be found in another way, but if in fact you want to use this as a source of providing funds to the trust fund, the only way you could do it in fairness is with a refundable tax credit, and so that is where we came out.

We prefer the existing tax structure, and for the funds to be found in some other way. But if you find that politically is unacceptable then the only way you can take care of the fairness issue is to have a refundable tax credit.

Mr. ANTHONY. I can see this is going to be one of those knotty issues that we are going to have to listen to the testimony and make as good a judgment as we know how. I do thank both of you for your viewpoints as well as the other two members.

I have one question of Mr. Fitch. You say that the Commission did not address the long term, but the truth of the matter is it did address at least approximately 70 percent of the long term. What would you come down on, and what would your group support coming out of this subcommittee, if we do go for the long term?

Mr. FITCH. One of the major issues we would support that also has political feasibility—we have to couch this in terms of political reality rather than wish-lists—is the gradual increase of the retirement age. That would help in the long term to make up the gap between revenues coming in and benefits going out.

The other long-term correction that we support would be to adjust the COLA's to better reflect the actual cost of living and living standards of those who are drawing down social security benefits.

The market basket that they draw from versus the market basket that wage earners draw from may not be exactly the same in terms of expenses and costs, and therefore NAW believes that some sort of realistic adjustment—a retirement CPI if you will—might be helpful. We definitely support indexing to the wage base over indexing to the CPI.

Mr. ANTHONY. Thank you very much for your testimony. Mr. Archer, you may inquire.

Mr. ARCHER. Thank you, Mr. Chairman. I know that the NFIB is opposed, has taken a public position in opposition to the Commission recommendations. It is my understanding, although only the NAM representative articulated this, that the other three of you support the Commission's proposal. Is that correct?

Mr. CARLSON. With technical changes.

Mr. ARCHER. What if the technical changes do not occur? Your idea of a refundable tax credit is really not what I would call a technical change. It is a matter of significant principle to many of us on this committee, and that is the issue of refundable tax credits in general, not to say that you don't have an argument in merit that you make very, very well as to the inequity of the tax on the self-employed, and I agree totally with that. But the issue of refundable tax credits is not a technical issue. It is a fundamental issue of principle to most of us at least on this side of the committee.

Mr. CARLSON. Although less desirable, a straight tax credit, if carried forward and carried back, would not be as fair, but would be a move in the right direction.

Mr. ARCHER. In any event, discarding the debate as to whether it is technical or not, what if that does not occur? What if there is no accommodation in the proposal? Then would you still support it?

Mr. CARLSON. We would like to face that when we see the Congress acting in that regard.

Mr. ARCHER. I just wonder if you gentlemen—and I accept the NFIB because they have spoken against this proposal. You gentlemen are all concerned about the overall tax burden that is going to be placed on the entire economy, irrespective of whether you shift it off to one direction or another direction, irrespective of whether you protect your own little base from an immediate implementation of this tax upon your members, of what the overall tax burden is going to do to the ability of the entire free enterprise society to make ends meet in the 30 or 40 years, because I am concerned about that.

And it seems to me that people sitting here before testifying before this committee ought to be concerned about what is going to happen to their kids.

You know we have had testimony before this committee by actuaries who are not pressured by politics, who tell us that we are looking at a 32-percent-of-payroll tax to maintain the current benefit structure in another 30, 40, or 50 years, the equivalent of a 32-percent payroll tax.

You can shift it over in one direction or another and say we are going to take part of this out of the General Treasury and we are going to tax somebody else over here and not do it on the payroll tax, but the ultimate burden on the other sector is still the same.

As I understand your testimony, you are coming in here and saying if we change the retirement age to 66 that everything is going to be "OK fellows, let's go on down the road."

The equivalent of changing the retirement age to 66 is roughly a half a percent of payroll, and we are looking at a shortfall of 15 percent of payroll, gentlemen, over the next 30 to 40 to 50 years. I don't understand how you can glibly come in here and say that this is a good proposal, and how the people that you represent really believe that this is a great proposal.

One of you said, gee, we are worried about General Treasury funding going into this program. Do you know how much of this proposal is General Treasury funds that accommodates this proposal, and the so-called answer to the fund? Mr. Fitch.

Mr. FITCH. Mr. Archer, I would like to clarify our position on this package. It was clear in my testimony that we do not support the package as it currently exists. We were willing to accept the tax increases on the one hand, if we see some very definite and corrective measures in the long-term sense, on the other side.

As you pointed out, the problem is with the benefit side rather than with income side. I think that is what needs to be put under control. NAW is willing to accept the tax increases that are already in place, provided that we see some measure of adjustment on the benefit side, and only at that point we will support the package. At this point we do not support the package as it is now constituted.

Mr. ARCHER. I am glad to clear that up and I appreciate that because I certainly believe that that is a responsible position. I am distressed when I see the NAM come up and say that they think that this is an overall good proposal. It seems to me that you are making a political decision rather than a decision of what is right for this country in the long run.

It seems to me the political decisions ought to be left up to the Congress. Am I wrong? Is your decision based on merit and substance or is it based on politics?

Mr. EICHENHOLZ. Congressman Archer, overall it is the position of the NAM that this package represents an appropriate compromise in the current environment in its first instance. However, in addition, to go back to the first part of the question that you asked, hairline notwithstanding, I am a part of the baby-boom generation, and also responsible for the baby-bust generation. So I plead guilty on two.

But it is important for us to recognize that there is an extremely important aspect of our economic recovery that depends upon our getting this first piece of the social security solution of the way in a productive, nonpejorative way, to get on to the extremely important questions of economic recovery.

As the Commission Chairman Alan Greenspan mentioned last week in his testimony, the implications of a failure to act promptly and appropriately, to resolve the short-term situation particularly, would be a serious signal to both international and domestic financial markets as to how the United States and our Government is going to view the Federal deficit and the process of economic recovery.

To the NAM, it is extremely important that we get this first step underway constructively, in a bipartisan manner, in a partnership manner, so that we really can deal constructively with the longer term situation. We believe that while individual pieces of the proposal are not consistent with existing NAM policy, we felt that as a package it was something that we could not oppose.

We are concerned about the use of any revenues other than payroll taxes to finance the system, but we have strong hopes that, by balancing the burden and stretching it over this 1983 to 1989 period, we can in fact achieve economic recovery without producing too great a burden on any individual component of American society, and also set the stage for the longer term.

Now, I would not ignore the fact that at the time that I am ready to retire, whatever is the first age of eligibility for full benefits, that I need to be preparing more for my own retirement than perhaps my parents or grandparents had planned for their own, and that is one of the aspects of leadership that is so important on the part of this subcommittee and the Ways and Means Committee, to recognize and to educate the American public, and particularly the baby-boom generation, and the one that will follow it, that social security is just one part of a three-legged stool of retirement income security.

It has to be matched with appropriate private pensions, and also a greater degree of private retirement savings than we have been doing in the past, and it is really solving the short-term and then the long-term social security problems, and putting those in context with what Americans should be doing, both to be productive during their working lives, and also secure during their retired lives, that really will be the major contribution to this committee, and the NAM will work with you constructively to do so.

Mr. ARCHER. You made a very nice statement, but your backing of this Commission report does not support your statement, unfortunately. And when you cut through all of it, the decision you made was one which is a political decision, and it seems to me the Congress ought to be making the political decisions.

But we are going to be back at this as a result of your support of this Commission report, and it won't be very many years until we are, and then the question is going to be, since we have already gotten the camel's nose under the tent for General Treasury funds, why not ram that camel right through into the tent?

I am frankly distressed to see responsible organizations come before this committee and say this is a very positive and productive step toward solving the social security problems. I am sorry, but that is the way I feel. I say it privately. I might as well say it publicly.

Thank you very much.

Mr. CARLSON. Congressman Archer, we are a little bit concerned that the Congress will not address this system in any other way but to have an outside commission come up with a compromise that everybody signs off of. The 1977 act was not the highlight of making sure you have a proper balance. So please don't criticize us for thinking in terms of what is feasible, given the paralysis of leadership in this Congress.

Mr. ARCHER. We need some leadership, Dr. Carlson, from all sectors. We need leadership from the Realtors, we need it from the NAM. We are getting some leadership from the NFIB. Do you think that the testimony of Mr. Dennis made any sense, that the proposal that they are recommending makes any sense?

Mr. CARLSON. I would not compromise the self-employed like he does in his testimony.

Mr. ARCHER. His recommendation, Dr. Carlson, is not to increase the tax on the self-employed at all.

Mr. CARLSON. In our judgment——

Mr. ARCHER. You would increase the tax with a refundable credit or do you want to go with the recommendation to change the structure so that we can afford the social security program?

Mr. CARLSON. I mentioned to you that we would prefer the existing structure. We frankly think the momentum has gone beyond that, and that we have to think in terms of technical changes to the compromise, not new structural changes.

Mr. **Archer**. Thank you very much.

Mr. **Anthony**. The time of the gentleman from Texas has expired. Are there any other questions or inquiries or statements from the members of the committee? Mr. Conable.

Mr. **Conable**. Mr. Chairman, I appreciate the difficulty of your position. Each of you has his own ideas about what would be preferable to the package that is before us.

Obviously we cannot decide this issue, if we are to be responsive to the special interests of every particular group which is affected by it. I think, therefore, you are participating in the dilemmas that face this institution as we try to preserve a government institution, social security, which is terribly central, terribly important, and for which there are many suggested solutions which would be worse than this.

And so I hope you will try to live in the real world, and not simply express your special interest, whatever it is, although we should know about that. We should try to accommodate it to the extent we can. It is a difficult position we are all in here, and I think we are all aware that it is possible to construct alternatives considerably worse than this, and you operating in Washington to some degree, are well aware that our political environment is not always the most constructive for resolving our dilemmas.

I simply want you to understand that all of us do not reject your opinion. Some of us have had to participate in the dilemmas that you are yourself expressing here before us today.

That is all.

Mr. **Anthony**. Thank you, Mr. Conable. Mr. Fowler.

Mr. **Fowler**. I shouldn't say it but I will. Unlike my friend from Texas, I just want to say that it is refreshing to see organizations with a reputation for responsibility acting responsibly. Thank you for your support. Thank you for your criticism. Thank you for being here.

Mr. **Anthony**. Like they say down home, keep those cards and letters coming. You don't have to believe that. We have heard your testimony, so we have got plenty of letters and cards to answer. Thank you very much.

Mr. **Eichenholz**. Thank you, Mr. Anthony.

Mr. **Anthony**. The next panel, John J. Sweeney, international president, Service Employees International Union. We also have Vincent L. Connery, national president of the National Treasury Employees Union; Mr. Kenneth T. Blaylock, national president, American Federation of Government Employees, and president, Public Employee Department, AFL-CIO; and S.O.S. Coalition of Greater New York, Lowell Iberg, cochairman. We have joining the panel Mrs. Alpha Omega Edmondson.

Welcome, gentlemen and lady. We look forward to your testimony, and we will take you in order and then if there are inquiries from the members of the committee they will address it to the panel as a whole.

Mr. Sweeney, we will let you lead off.

STATEMENT OF JOHN J. SWEENEY, INTERNATIONAL PRESIDENT, SERVICE EMPLOYEES INTERNATIONAL UNION

Mr. SWEENEY. My name is John Sweeney. I am president of the Service Employees International Union, representing about 750,000 workers in the public, nonprofit and private sector, including a third of a million public employees and a quarter of a million healthcare workers. I greatly appreciate the opportunity to present the views of our union before you today on this important issue.

SEIU supports all of the recommendations of the President's Commission on social security except for the proposal to cover new Federal employees.

We are very pleased that in general the Commission has reaffirmed our Nation's long-standing support for the integrity of the social security system. We believe that taken in context the proposed changes are relatively minor adjustments to funding shortfalls that have occurred in the past decade.

We believe strongly that the American public deserves to know that the social security system is in good shape in general, and that these adjustments are necessary because no one foresaw a decade ago how badly prices would outstrip wages, and how bad the current recession would be.

We also believe strongly, with the one exception we mentioned regarding new Federal employees, that the proposals submitted by the Commission are a reasonable and fair compromise and we hope that you will recommend to the full House adoption of the program.

We believe the Commission acted wisely in attempting to address the worst case possibility and erring on the side of overestimating this shortfall. These proposals should certainly keep the system going while we look at how the remaining smaller, long-term shortfall should be dealt with. We do not feel, by the way, that the long-term problem should be solved by raising the retirement age.

We also believe that there are several other issues not addressed by the Commission, such as the treatment of women under social security, which Congress needs to address in the near future.

We are specifically concerned today with three areas involving the issue of coverage addressed by the Commission. First, the coverage of nonprofit employees. Second, the coverage of State and local government employees, and, finally, the coverage of Federal employees. I would like to address these in order.

We strongly support the Commission's recommendation that nonprofit employers be required to participate in the social security system beginning in 1984. This is a long-standing loophole that should be closed once and for all. There was unanimous support in the Commission for the recommendation to extend this mandatory coverage.

When nonprofit institutions were originally allowed the option of coming in on their own, it was because the whole nonprofit area of our economy was mainly church-related and there was some reluctance to impose even wage taxes on these institutions.

Over the years, of course, the thinking has changed on this. Now even the clergy is covered by social security. So we now have the rather unusual situation where the religious order that runs a nonprofit hospital is required to maintain its own members in the system, but not the employees of the hospital that the order runs.

Today, of course, the nonprofit sector of our economy encompasses far more than simply religious institutions. One portion of the nonprofit sector of particular concern to our union is hospitals. I would like to spend just a moment reviewing the current problem caused by the ability of nonprofit hospitals to withdraw from social security.

Our union has led the fight to expose to the public the scandalous situation of nonprofit hospitals attempting to pull out of social security without the consent or, in some instances, even the knowledge, of their employees.

As the law presently stands, we face the ironic situation of nonprofit hospitals, themselves dependent on funds from the social security system, being able unilaterally to withdraw from participation in that system without the consent, or in many cases, even the knowledge of their employees, and once out are barred from returning to the system.

On top of that, the Government's position is that the filing of these notices of withdrawal is confidential tax information and there is no practical way of finding out that an institution is poised to withdraw.

Today, about 90 percent of all nonprofit employers are covered by social security. Yet the rate of withdrawal by nonprofit employers has escalated in the past several years. Recent figures show that nearly 500 hospitals covering 400,000 employees, are poised to get out of the system unless Congress acts now. This loss of participation will result in an additional burden on the system of approxmiately $1.05 billion each year by 1985.

We agree wholeheartedly with the recommendations of the Commission that these employers be required to participate.

The issue of covering State and local government employees is somewhat more complicated than that of nonprofit employees. As the Commission points out, there are those who raise the issue of constitutionality, although it is our opinion that Congress has the authority and the right to require State and local governments to participate in the social security system.

Our only caveat in extending this coverage universally is that there are existing pension systems which have been developed historically over the years in the absence of social security, especially for police and fire employees, and that efforts must be made to insure that workers in these systems are not harmed by this extension of coverage.

The AFL-CIO's policy on this, which we support, expresses opposition to the extension of this coverage until four considerations are met. These are:

1. No reduction in the level of pension benefits now available to such workers;
2. No additional financial burden imposed on employees without a commensurate adjustment in benefits;
3. Maintenance of the identity of their retirement plans; and
4. No diminution in the opportunity for these employees to improve their retirement systems.

However, regardless of what the committee recommends on extending coverage, we feel there are certain actions which must be taken now to preserve the rights of covered employees in State and local governments.

On December 31 of last year, Los Angeles County withdrew 55,000 employees from the system. This was the largest single withdrawal in the history of the social security system, and it was done on a 3-to-2 vote by the county board of supevisors, over the strenuous objections of our local unions there who represent the bulk of the county workforce.

This act of betrayal of those county workers is a striking reminder to us of the shortcomings of the current law, which permits withdrawals by State and local governments without the consent of their employees.

We support fully the Commission's recommendations to prohibit these withdrawals in the future. And in the unlikely event that you do not support this prohibition, we certainly would request that you at least consider a requirement that employees vote on such matters.

In addition, we believe that the law should be changed so that public employers once out of the system may come back in. Under current law that narrow 3-to-2 vote by the Los Angeles County supervisors can never be reversed by future county boards. Those employees, while they remain with county government, have lost their social securtity coverage forever. And the voters in Los Angeles have no recourse either if they wish to overturn this unilateral action.

The third area that we are concerned with is the coverage of new Federal employees. Here the situation is even more complicated than the coverage of State and local government employees. Over the years the Federal Government has developed a good civil service pension system which was created and improved in the absence of social security coverage.

SEIU represents some 100,000 Federal workers. As Kenneth Blaylock and Vince Connery will tell you, they are very concerned with this proposal. We believe that any consideration of extension of coverage take place only after representatives of Federal and postal workers have had the opportunity to evaluate the details of any new system and the impact on current Federal workers.

Certainly in the current context of so many other attacks on Federal workers, from the unjust wage freeze on down, this proposal will continue to erode the morale of the Federal work force and will further hamper the Government in recruiting and retaining talented employees.

I want to thank the committee for its time. I will be glad to answer any questions.

Mr. ANTHONY. Thank you, Mr. Sweeney.

Mr. Connery.

STATEMENT OF VINCENT L. CONNERY, NATIONAL PRESIDENT, NATIONAL TREASURY EMPLOYEES UNION

Mr. CONNERY. I am Vincent L. Connery, national president of the National Treasury Employees Union. On behalf of the 120,000 Federal employees we represent, I appreciate the opportunity to participate in these hearings.

I have submitted a statement for the record, and I would like to summarize my remarks.

Mr. Anthony. All of the statements of the witnesses on the panel will be accepted for the record, and we would appreciate it if you could summarize it, hopefully, within the 5-minute time frame, to leave time for questions from the panel.

Mr. Connery. Even though we as Federal employees are not covered by social security, we believe that the protection of the system is in the best interests of all Americans. We do not believe, however, that the recommendations set forth by the National Commission on Social Security Reform to bring Federal and postal workers hired on or after January 1, 1984, under social security would solve the problems of that system.

What the proposal would do is bankrupt the fair, fiscally sound Civil Service Retirement System. It would saddle the taxpayer with a huge debt and would almost certainly cause a reduction in benefits paid by and promised to Federal retirees. We remind the committee that these are among the reasons why covering Federal workers under social security has been rejected every time it has been considered by the Congress in the past.

We oppose the Commission's proposal for the following reasons. The Commission asserts that the inclusion of new Federal employees under social security would generate approximately $12 billion in revenue for the system between 1983 and 1989. Yet some independent actuaries are claiming that the real figure could be much lower, as low as $4 billion.

In addition, the Commission as well as the Social Security Administration actuaries have projected a long-term, shortfall in the system. This problem would occur at the same time Federal and postal workers begin to collect social security benefits. It is obvious, therefore, that the inclusion of these workers under the system would help create a long-term funding problem in return for a small stop-gap infusion of revenue.

Second, the evidence is clear that enactment of the Commission's universal coverage proposal would destroy the Civil Service Retirement System as it is presently known.

Without the contribution of new workers, the Civil Service Retirement Fund will be bankrupt in 20 years. At that time the benefits would have to be paid out of the U.S. Treasury at a cost of at least $185 billion in constant dollars. When Congress is faced with such a staggering funding requirement, we are very concerned that the level of benefits that have been promised to employees would be drastically reduced.

In discussing this issue with congressional representatives and their staffs, we have been asked if we could support the creation of a new pension plan for newly hired Federal employees to supplement their social security coverage. The answer is we cannot, for several reasons:

1. A supplemental plan would do nothing to insure the payment of future benefits under the current Civil Service Retirement System.

2. The creation of such a program would also do nothing to address the drain on social security that inclusion of new Federal and postal workers would create.

By accepting this compromise, we would only signal our approval for a proposal which would destroy our sound civil service retirement, and contribute to yet another long-term funding crisis for social security, all for the sake of what will surely be only a minimal short-term revenue.

For the sake of our membership, and for all recipients of social security, we cannot do so.

Thank you.

Mr. Anthony. Thank you, Mr. Connery.

[The prepared statement follows:]

Statement of Vincent L. Connery, National President, National Treasury Employees Union

Mr. Chairman and members of the Ways and Means Committee: I am Vincent L. Connery, President of the National Treasury Employees Union. Our union is the third largest in the Federal sector, representing over 120,000 employees in various agencies of the United States Government.

We are here today not to obstruct efforts to save the Social Security System but to join in them. Even though as Federal employees, we are not covered by Social Security, our parents, our families, and our friends are. In addition, many of our members will leave Federal service or have entered the government from private industry; they too have a stake in Social Security. We believe that the protection of the Social Security System is in the best interest of all Americans.

Yet, for a program that has become so crucial to the well-being of countless Americans, Social Security continues to encounter deep-rooted problems. The crisis in funding that exists today is but the most recent in a succession of difficulties that have threatened the health of the system for years. Unless we take a seasoned, far-sighted approach in resolving our current dilemma, we will be faced with similar difficulties over and over again.

We have reviewed the report of the National Commission on Social Security Reform. We are deeply disturbed by the fact that its recommendations are designed to meet the needs of Social Security only for the rest of this decade and that they ignore the inevitable problems that will occur despite—and indeed as a result of—the Commission's proposals.

Our primary concern with the Commission's report is that section which mandates Social Security coverage for all Federal and postal workers who are hired on or after January 1, 1984. Consistent with the historical position of our union, we firmly oppose the inclusion of any Federal and postal workers—past, present or future—under Social Security and/or their exclusion from the Civil Service Retirement System. In fact, the issue of covering Federal and postal workers under Social Security has been before Congress at least five times in the past, and each time Congress has completely rejected the issue.

We take this position not only in the interest of our members, but on behalf of those covered by Social Security. We are concerned that the retirement benefits which Federal and postal workers have earned and have been promised to them remain secure. We are equally concerned with the long-term financial stability of the Social Security trust fund. Bringing new Federal and postal workers into Social Security will add a new burden to the taxpayers and jeopardize the retirement benefits of current and future civil service retirees as well as Social Security recipients. Let us examine the reasons behind this position.

THE COSTS TO SOCIAL SECURITY

In its findings, the Commission stated that the inclusion of newly-hired Federal and postal workers would generate approximately $8–$13 billion in revenue (counting the employees of non-profit organizations, the estimate is $20 billion) from 1983–89. The report, however, does not address the long-term impact on the Social Security trust fund of including these workers. Using the Commission's own figures, it soon becomes clear that the addition of more employees to the system will increase the long-term short-fall in the trust fund rather than assist in meeting the funding crisis.

In examining the problems faced by Social Security, the Commission concluded that in the long run—that is, the 75-year period beginning at the present time—the actuarial imbalance of the system is an average of 1.8 percent of taxable payroll per year. The recommendations of the Commission, however ensure the system's solvency only until the end of this decade; part of this projection is based on the inclusion of new Federal and postal workers.

The Commission's own estimates show that after 1990 the projected 1.8 percent actuarial imbalance in the fund would not be fully met but would remain at .58 percent. Not coincidentally, this is about the same time that covered Federal and postal employees would begin to collect their Social Security benefits. Thus, it is readily apparent that the Commission has willingly traded a long-term funding crisis for a short-term, stopgap infusion of revenue.

Social Security, of course, is affected by numerous external factors, and it is impossible to predict with any certainty the condition of our nation's economy in the next century. Based on available data, however, it is reasonably clear that the inclusion of Federal and postal employees would only accelerate the problems with the system and not solve them.

THE EFFECT ON CIVIL SERVICE RETIREMENT AND THE FEDERAL BUDGET

The Civil Service Retirement System is a staff retirement plan designed and intended by Congress to provide a livable annuity to those who have worked for the United States Government and have vested in the program. The system was enacted in 1920, and, despite past sporadic support by the government, it is on sound financial footing until well into the 21st century. Civil Service Retirement currently pays annuities to over 1.5 million Federal retirees, their spouses and their survivors.

These are the facts about the system as it currently exists. However, if Congress accepts the Commission's plan to put newly-hired Federal and postal workers under Social Security, the Civil Service Retirement System will be in dire financial straits in a short period of time and totally bankrupt near the turn of the century.

In 1977, the last time a universal social security coverage proposal was before Congress, it created the Universal Study Group to conduct a two-year study on the methods by which Federal and postal employees could be brought into the system. However, the group was unable to devise a Federal retirement program that could be integrated with Social Security at an acceptable cost and without a substantial loss of benefits, and their recommendations have never been seriously considered.

This recent history is important to note because we believe it has a bearing on where we are today. Mindful of the Congress' previously expressed desire to maintain present civil service retirement benefit levels, but sensing a politically safe target in the Federal workforce, the National Commission on Social Security Reform chose to recommend the inclusion of only newly-hired Federal and postal employees. We suspect that the Commission felt that this would ally any negative reaction by active and retired Federal workers while using a politically unpopular group as a means to generate needed short-term revenue.

Unfortunately for the Commission, Federal and postal workers know how to add. We are not at all mollified by the proposal to bring only new hires into social security. Doing so would pose a threat to the retirement security of every Federal and postal worker and retiree. You know it, we know it, and the public—if they do not already—will soon know it.

A study conducted by Edwin Hustead, former Chief Actuary of the Civil Service Commission and now the Director of Acturial Services for Hay Associates, demonstrates that if new Federal and postal workers stop paying into civil service retirement, the point where income into the system equals outlay will be reached in eight years. In 20 years, the balance in the civil service retirement fund would be zero. After that, all benefits would be paid solely out of the U.S. Treasury.

If new Federal and postal workers are brought under Social Security, then those who are already employed would have to depend on Congressional action to maintain their retirement income. We find it outrageous and disgraceful that the Commission would ask Federal and postal wokers to risk their retirement security based on such a vague promise of future funding. Unfortunately, over the past four years, we have witnessed a continued deterioration of our pay rates, our retirement program and our other benefits. To expect us to rely on Congress to expend the amount of funds necessary to maintain our retirement plan after the balance in the fund reaches zero, is asking us to forget the lessons of the recent past. Neither we nor our members will ignore reality.

It is important that congress realize the size of the debt to which it would be committing the government if contributions to the Civil Service retirement System are discontinued. Our research indicates that the amount of money that the government would have to pay in promised benefits once the retirement fund is depleted would be $185 billion. It is important to remember that this is a static figure, i.e., one that is not adjusted for inflation or any other economic factor. Once a modest 5.5 percent inflation rate is factored in, the figure would reach $550 billion.

We remind the Committee that the Civil Service Retirement System is financed in a manner which is different from the Social Security system. Under Social Security today's workers and employers are paying the benefits of today's retirees. A future generation of workers and employers will pay their benefits. No effort is made to prefund or to set aside sufficient funds during the working lifetime of the employees which together with investment income will pay his benefits as is the case with the Civil Service Retirement System and other pension systems. One cannot look at the Civil Service Retirement System as one would a "pay as you go" or generational type funded system.

For example you cannot merely look at the amounts paid out in benefits in one year and look at the source of the income in that year and assume that employees paid the percentage of the assets shown as employee contributions and the employer paid the balance. The amount of the contributions represent a percent of payroll, our installment, required to be set aside each year over a long period of time to meet the cost of the benefits which the employees will later receive. When the amount set aside is not sufficient or the benefits are liberalized during the working career of the employee unfunded liability is created, in other words, the benefits are going to be higher than the contributions plus interest income which have been set aside and held in a fund. Provision must be made for paying this amount.

Under the Civil Service Retirement System, as well as other contributory pension systems the amount of the employee contributions paid in during a given year will vary as a percent of the amount paid out in benefits. It can, as it was with the Civil Service System for many years, represent more than 100 percent of the benefits paid, in other years the percent will change. However, the fact remains that over a long period of time a specified percent on average or as a level percent of payroll must be there to pay future benefits.

At present the fund has an unfunded liability; the amount not there to pay benefits which are going to have to be paid is $185 billion. These benefits are not payable now, but the obligation for them will be met if contributions into the system continue. If incoming revenue is cut off, Congress would either be forced to meet this staggering debt or drastically reduce benefits and deny employees their promised retirement security.

The Civil Service Retirement System is currently financially sound. This is not an idle contention on our part; it is supported by the Commission's own Executive Director, Robert J. Myers, who has said:

"The basic actuarial-funding basis of CSR, as it will be done in the future, is that the accumulated unfunded liability will never be liquidated. Rather, interest on it will be paid every year into perpetuity (as it has been in the past). This will provide adequate financing at all times, and it is a quite appropriate procedure for a Federal government plan. Such interest will be expressed as a percentage of payroll of the total then-active workforce, even though many of them—eventually, all of them—will not have had anything to do with the creation of the unfunded liability itself!"

The adequacy of the current system was also supported in a recent study conducted by pension experts of the Ford Motor Company, Burlington Industries and the Wharton School of Finance of the University of Pennsylvania. This study showed that as long as the Civil Service Retirement System is financed in the current manner, it will remain solvent indefinitely. We believe that it makes no sense to destroy a stable program in favor of short-term gains for Social Security—especially when those gains would be purchased at tremendous long-term cost to the Social Security System and the American taxpayer.

SUPPLEMENTARY CIVIL SERVICE PENSION PLAN

In recommending that newly-hired Federal and postal workers be brought under Social Security, the Commission also stated its belief that a supplementary pension plan would be developed for the employees to provide roughly the same level of benefits as the current system. Once again, we feel that the Commission is ignoring reality.

First of all, there is the question of time. Congress will be busy with the social security issue at least until April or May. In addition, both the House and Senate must fulfill its budget and appropriations responsibilities as well as consider other important matters such as the jobs bill. There is hardly "plenty of time," as one Commission member suggested, to devise a fiscally responsible, fair retirement system before January 1, 1984.

The difficulty of developing such a supplementary plan cannot be underestimated. In 1979, an Office of Personnel Management Compensation Group issued a study entitled, "Cost Estimates for Options for Coverage of Federal Employees under the Social Security System." In it, the group devised three models on which a combined social security-supplementary pension plan would be based. Each was more costly and provided lower benefits than the present system. Likewise, the Universal Coverage Study Group created by the Social Security Amendments of 1977 could not develop a system to provide the same level of benefits to all participants at the same cost as the current program.

Last year, Senator Ted Stevens (R-AK) introduced a bill which would create a social security-based retirement plan for Federal employees. Senator Stevens' bill, however, was never subject to public scrutiny. Out initial research uncovered major inconsistencies in the legislation, and the Senator himself admitted it was only a starting point.

Yet, the Commission continues to insist that a plan can be developed. Just last week, Commission member Alexander Trowbridge in testimony before the committee offered a paper by Mr. Myers which sought to rebut many of the objections raised by Federal and postal workers. In his paper, Myers claims that the Civil Service Retirement System need not be destroyed because a supplementary system could be developed that would help to pay for future benefits.

But Mr. Myers in his recommendations does not provide the funding necessary to maintain the financial well being of the current Civil Service Retirement System, even if the funds of the two plans were mixed. Employees now pay 7 percent of salary into the fund; under the Myers plan, this contribution would be less than one percent. It is obvious on its face that this inconsequential contribution could never finance the same level of benefits.

In addition, Mr. Myers makes an unsubstantiated assumption by even suggesting that the two funds be commingled. Senator Stevens for one has already stated his opposition to such a plan. For our part we would see no practical way or any private sector model which would lead us to believe that the funds of two totally different plans could be merged. If that is so, then our fears for the future of the Civil Service Retirement System and to the resultant debt it would produce remain unanswered. We remain convinced that cutting off contributions in the fund would eventually threaten the retirement security of active and retired Federal and postal workers.

WINDFALL BENEFITS

While we have grave concerns over the implications of the so-called "windfall" benefit proposal contained in the Commission's report, we do not wish to engage in a lengthy discussion of the issue at this time. We do not want to divert attention from the severe threat to the taxpayer and the Civil Service Retirement System posed by the proposal to include Federal and postal workers under Social Security.

CONCLUSION

In conclusion, we believe that the Commission's proposal to include newly-hired Federal and postal workers under Social Security is an example of the kind of short-sighted thinking that has created our present social security crisis. What is even worse is that Federal and postal workers—present and future—would be asked to submit their retirement system to destruction. Although the Commission claims that their proposal is fair and requires "sharing" of the burden on everyone's part, we do not see anyone else being asked to give over their retirement plan for the short-term gain of Social Security.

We submit that the Congress would better serve the long- and short-term interests of the Social Security System by attacking the root causes of the problems—not just the symptoms. One of the major reasons why we face a social security shortfall is the dismal state of the economy. If we could put just one percent of unemployed Americans back to work each year for the next three years, we could generate over $12 billion for the system by 1985 according to the Social Security Administration. That is far more than would be gained over the same period by adding Federal and postal employees.

In addition, we urge Congress to consider funding the welfare component of social security out of general revenue. For example, Medicare and Supplementary Security Income (SSI) should be recognized for what they really are, social welfare programs and not components of a contributory retirement system. Under this proposal, which has the support of many experts, the cost of the retirement benefits paid by social security would be rightly borne by the working sectors of the economy while the welfare aspects of the program, like other welfare systems, would be financed through general revenues.

These are suggestions we offer out of our belief that Social Security must be saved. However, we do not support the destruction of our retirement system for the sake of short-term gains for the system. We stand ready to work with the Committee to develop workable solutions to the social security crisis. Until then, we urge this Committee to reject the idea that new Federal and postal workers be brought into the Social Security System.

STATEMENT OF KENNETH T. BLAYLOCK, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES, AND PRESIDENT, PUBLIC EMPLOYEE DEPARTMENT, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS

Mr. **Blaylock**. Mr. Chairman, my name is Ken Blaylock and I appear here in a dual role as president of the Public Employee Department of the AFL-CIO, and as national president of my own union, the American Federation of Government Employees.

At the outset I would like to associate myself with the remarks presented before the full committee by the AFL-CIO president, Lane Kirkland. We are pleased that a package was developed by the National Commission on Social Security Reform.

However, we have some serious reservations about 2 of the 22 primary recommendations, and those 2 I will spend my time on here this morning: The extension of social security coverage to all newly hired Federal and Postal employees, and the so-called windfall benefit recommendation.

We have presented to the subcommittee, Mr. Chairman, a detailed written statement which goes into the complexity of the current system and points out that there are 51 separate retirement systems in the Federal Government now. It is not a simple problem that can be approached here when we talk about changing the current system.

My oral statement today has been introduced in writing to the committee with some appendices supporting the conditions.

I would like to have the oral statement also entered into the record with those appendices.

Mr. **Anthony**. Without objection.

When you say, Mr. Blaylock, there are 51, does your study show that that is a comprehensive number? Do you think that covers all of them?

The reason I am asking, I have been asking this question myself since I have been on the Social Security Subcommittee, and it started at 20; it went to 30, and at the end of last week the number 90——

Mr. **Blaylock**. There are 51 systems, and some of those systems have as many as 13 basic or different elements within them.

It is a very confusing situation, believe me, and there are some of them that only cover a handful of people and some of them quite large.

Some are administered by private sector companies; some administered internally by the agency.

It is a very complex situation and we do have them all outlined and named in the appendices we have introduced to the committee.

Mr. **Anthony**. Thank you. That will be very beneficial not only to the full committee, but I think to the public at large. You may continue.

Mr. **Blaylock**. Thank you.

My colleagues in the Federal work force and I are raising serious reservations and objections to the extension of social security coverage to newly hired Federal and Postal workers based upon the cost of enacting such a change and the impact such change will have on the existing civil service retirement program.

I believe that despite our efforts to discuss the issue in a logical and responsible manner, the issue is incorrectly framed by utilizing actuarial projections and discussions of budgetary impact of such policy changes.

I regret that we have fallen into the trap of trying to discuss a political solution to a complex, financial problem.

We are all now forced to develop and implement a compromise solution to the funding problems of social security in a highly charged political environment.

Clearly if we are to have our problems heard, we have to restate them in more political terms. The question is raised why are we opposed to extending social security to newly hired Federal and Postal workers.

Quite frankly, Mr. Chairman, we are opposed to being used as pawns in a laundering operation, and basically that is what it amounts to when we say that the Federal Government is going to become an employer by definition under social security. Federal workers are then going to make a contribution to the social security system with general tax dollars, and we are, at the same time, going to operate a separate retirement system for the Federal employees.

While we do not necessarily oppose the use of Treasury dollars in the social security program, we wonder why the Congress doesn't just admit the truth to the American people, instead of raising false arguments about fairness. The proposal before you doesn't recommend the inclusion of Members of Congress under the social security system, Mr. Chairman. Is that equitable?

Mr. **Anthony**. Mr. Blaylock, you don't have to worry about that. The public will see to it that it is included.

Mr. **Blaylock**. Given the Government's reputation as a dubious bill payer, and Congress record of exempting themselves from laws regarding occupational safety and health, civil rights, and social security coverage, we are skeptical of the true commitment to the bipartisan solution and congressional understanding of the problems involved in extending social security to newly hired Federal and Postal workers.

Simply put, three issues dominate our justification for not endorsing the extension of social security coverage.

They are, one, how many are they and who are the newly hired Federal workers on whom you base the coverage issue?

Two, what are the real costs of the civil service retirement program?

Three, the absence of a true understanding of the costs of creating a new retirement program while maintaining existing civil service retirement system.

According to the Social Security Administration, under the proposal before you, $11.7 billion would be generated for the social security trust funds over the next 5 years by bringing all newly hired Federal and Postal employees under the coverage.

We question those assumptions on the following grounds.

One, it is unrealistic to assume that a static new hire rate of 100,000 per year will generate $11.7 billion in revenue over the 6-year period.

We contend that the new hiring at the 100,000 employee rate will generate only $3.9 billion over the period given the average salary for new hirees.

We have included charts with this statement, Mr. Chairman, which show how many people are being hired and also the personnel practices that are resulting in reductions in force.

The new hire rate will decline, rather than increase, over the 6-year base period, given current administration and Postal Service personnel policies.

As an example, in fiscal year 1981, the executive branch hired 517,475 new hires including Postal, but Mr. Chairman, only 154,000 of those were full-time permanent workers. The others were intermittent and temporary-type hirees.

In 1982, the executive branch hired 443,805 employees, including Postal, but only 133,000 were full-time permanent workers.

The others, again, were temporary and intermittent type hirees. It is a decline of 21,000 and some 16 percent full-time in permanent positions.

The stated policies of this administration and the Congress is to reduce the Federal work force. If that trend continues, then it is reasonable to assume that we are going to gradually have a 10- to 16-percent reduction each year in new hires.

In order to reach the rate of new hires sufficient to generate $11.7 billion in revenue to the social security system, a total 1.8 million new career and Postal workers would have to be hired and retained during the next 6-year period, resulting in an 85.7-percent replacement of the existing work force. Mr. Chairman, we contend that that is totally unrealistic.

To reach the $11.7 billion revenue estimate needed for the social security trust funds, $99.15 billion in payroll will be required, and I point out that is in addition to the current $64 billion payroll.

Again, we think that is totally unrealistic as a base to project savings for the social security system.

We believe a more realistic view of the Federal work force would assume a total of 382,000 permanent new hires will occur over the next 6 years, given current personnel policies.

At this rate of hiring, we calculate only $2.8 billion revenue gained to social security over the next 6 years.

In our appendix, we show that if assumptions are used for both the private sector pension and the civil service retirement system, the actual cost of the civil service retirement system to the Government is approximately 25 percent of covered payroll. The actual cost for pension and social security for Fortune 500 companies in the private sector is 18.4 percent of payroll.

For the Federal worker, the costs of the civil service retirement system is 7 percent of pay, whereas, in the private sector, the employee contributes 5.1 percent of wages for retirement.

While it is true that the Government, as an employer, contributes 35.9 percent more as a percentage of payroll than the Fortune 500 companies, Federal workers contribute 37.3 percent more of their wages for retirement when compared to their counterparts in the private sector.

Using a normal cost calculation, we show the cost differential for the Federal Government is 8.5 percent compared to the private sector, which shrinks to 7 percent in 1988, if the OASDI tax increases are counted.

The CSRS is a good retirement system which requires higher contributions from both the Government worker and the Federal Government in its role as an employer. The outrageous cost estimates that are being floated around are based on inaccurate or erroneous assumptions.

If the Congress is concerned about the civil service retirement system as a percent of payroll, then the one thing the Congress does not want to do is to close out the civil service retirement system and place new hires under social security.

If you do, this effectively calls the note on the unfunded liability of the civil service retirement system—it greatly increases the costs to the Government as a percentage of current payrolls.

By our projections, the cost over the next 6 years would range between 45.9 down to 42.5 percent. It is impossible to get an accurate fix on that, Mr. Chairman. However, the civil service retirement system was not structured to be a pay-as-you-go system. It has become a pay-as-you-go system because there were 37 years that the Government, as an employer, did not make their contribution.

Therefore, Congress is appropriating additional funds to pay interest on that debt, which is a large part of the unfunded liability, so, in effect, it has become a pay-as-you-go system.

If this system is closed off in 1984, and no more funds are coming in, new workers will not be there in the future to pay into this system, then the Congress is going to have to address paying off that debt because the unfunded liability does become real in that case.

As long as it is a pay-as-you-go system, the unfunded liability is meaningless.

Mr. ANTHONY. Mr. Blaylock, I would just caution you, if you could quickly summarize so we can get to the next witness and then have questions.

Mr. BLAYLOCK. We have just one more point to make, Mr. Chairman, and that is in general we support the recommendations of the Commission.

As to the proposal to include Federal workers, we contend that the issue is too complex to be done immediately.

Two, the Congress needs to look at the details of what the cost is really going to be, and we contend it is not going to put any money in the social security system and it is going to increase the Government's costs dramatically to maintain a staff retirement program.

Thank you so much.

Mr. ANTHONY. Thank you, Mr. Blaylock.
[The prepared statement follows:]

STATEMENT OF KENNETH T. BLAYLOCK, NATIONAL PRESIDENT, AMERICAN FEDERATION OF GOVERNMENT EMPLOYEES AND PRESIDENT, PUBLIC EMPLOYEE DEPARTMENT, AFL-CIO

Mr. Chairman, my name is Kenneth Blaylock. I appear here in my dual roles as President of the Public Employee Department, AFL-CIO, and the National President of the American Federation of Government Employees.

Mr. Chairman, at the outset I would like to associate myself with the remarks presented before the full committee by AFL-CIO President, Lane Kirkland. We are pleased that a consensus package was developed by the National Commission on Social Security Reform. However, we have serious reservations about two of the twenty-two primary recommendations: The extensions of social security coverage to all newly hired federal and postal employees and the so-called "windfall benefits" recommendation.

Mr. Chairman, we have pressented to the sub-committee a detailed written statement, which I would ask be printed in the record, that describes for you the complexities involved in creating a new supplemental staff retirement program. I hope this information is instructive to the committee, and that you will consider these problems as you draft new social security legislation.

Mr. Chairman, today I would like to briefly share with you our thoughts on the arguments raised before this committee which question our public responses to the commission report, as well as the information used to attack our existing retirement program. I would ask that the charts and appendix presented also be included in the record.

My colleagues in the federal work force and I, are raising serious reservations and objections to the extension of social security coverage to newly hired federal and postal workers based upon the costs of such a policy change and the impact such changes will have on the existing Civil Service retirement program. I believe, that despite our efforts to discuss the issue in a logical and responsible manner that we have framed the issue wrong by utilizing actuarial projections and discussions of the budgetary impact of such policy changes. I regret that we have fallen into the trap of trying to discuss a political solution to a real problem by making the issue so complex. We are all now forced to develop and implement a compromise solution to the funding problems of social security in a highly charged political environment.

Clearly, if we are to have our objections heard, we have got to restate them in more political terms. Therefore, why are we opposed to extending social security to newly hired federal and postal workers? Quite frankly, Mr. Chairman, we are opposed to being used as pawns in a Nixon style laundering operation designed to pump general treasury dollars—taxpayers dollars—into the social security program.

While we do not necessarily oppose the use of treasury dollars in the social security program, we wonder why the Congress doesn't just admit this to the American people instead of raising false arguments about fairness when current plans don't even call for current members of Congress to be covered by social security.

Given the governments reputation as a reliable bill payer, which is extremely dubious, and Congress' record of exempting themselves from laws regarding OSHA, Civil Rights, and probably Social Security coverage, we are doubtful of your true commitment to the bypartisan solution and your understanding of the problems involved in extending social security to newly hired federal and postal workers.

Simply put, Mr. Chairman, three issues dominate our justification for not endorsing the extension of social security coverage. They are, (1) who are the newly hired workers you base the coverage issue on, (2) what are the real costs of the Civil Service Retirement program, and (3) the absence of a true understanding of the costs associated with creating a new retirement program while maintaining the existing Civil Service Retirement System.

Mr. Chairman, according to the Social Security Administration, under the proposal before you, $11.7 billion would be generated for the social security trust fund over the next five years by bringing all newly hired federal and postal employees under social security coverage. We question these assumptions on the following grounds:

(1) It is unrealistic to assume that a static new hire rate of 100,000 per year will generate $11.7 billion in revenues over the six year period.

We would contend that new hiring at the 100,000 rate will generate $3.9 billion over the period given the average salary for new hirees. See our chart No. 1.

(2) The new hire rate will decline rather than increase over the six year base period given current administration and postal service personnel policies.

In fiscal year 1981, the Executive Branch had 517,475 new hires (including postal), of which only 154,000 were full-time permanent. In fiscal year 1982, the Executive Branch had 443,805 new hires (including postal), of which 133,000 were full-time permanent. This was a decline of 21,000 (some 16 percent) full-time permanent positions.

(3) In order to reach the rate of new hires to generate an $11.7 billion gain to the social security system, a total of 1.8 million new career federal and postal workers will need to be hired and retained resulting in a 85.7 percent replacement of the existing work force. See chart No. 2.

(4) To reach the 111.7 billion revenue estimate needed for social security, an additional gross payroll of 99.15 billion will be required. See chart No. 3.

Mr. Chairman, we believe that a more realistic view of the federal work force would assume that a total of 382,300 permanent new hires will occur over the next six years given current personnel policies. At this rate of hire and assuming no drastic increases in federal and postal salaries, we calculate only a $2.8 billion revenue gain to social security over the six year period. See chart No. 4.

Mr. Chairman, critics of the Civil Service Retirement System often claim the system is unsound because the government makes such a large contribution as a percent of payroll compared to employers in the private sector. Sometimes, the comparison is made on actual contributions to the Civil Service Retirement System, other times, it is based on the so-called "normal costs" for the Civil Service retirement System.

In our appendix, we show that if common assumptions are used for both the private sector pensions and the Civil Service Retirement System, the actual cost of the Civil Service Retirement System to the government would be approximately 25 percent of covered payroll while the actual cost for the pensions and social security for Fortune 500 companies is 18.4 percent of payroll. For the federal worker, the cost of Civil Service Retirement System is 7 percent of pay, whereas the private sector employee contributes 5.1 percent of wages for retirement.

While the government as employer contributes 35.9 percent more (as a percent of payroll) than the Fortune 500 companies, federal workers contribute 37.3 percent more of their wages comared to their counterparts in the private sector.

When using normal cost calculations we show the cost differential for the federal government is 8.5 percent compared to the private sector which shrinks to 7 percent in 1988 if the OASDI tax increases are counted. These numbers illustrate two facts:

(1) The CSRS is a good retirement system which requires higher contributions from both the government worker and the federal government in its role as employer.

(2) The outrageous cost estimates being floated are based on inaccurate or erroneous assumptions.

If the Congress is concerned about the CSRS as a percent of payroll, what the Congress does not want to do is close the CSRS and place new hires under social security. This move would effectively "call the note" on the unfunded liability of the CSRS and greatly increase the cost to the government (as a percent of currently covered payroll). We estimate this cost over the next six years as ranging between 45.9 percent and 42.5 percent of covered payroll.

Mr. Chairman, federal workers need only look at how Congress managed the merger of the railroad retirement system and social security to determine how a yet to be detailed supplemental retirement program for newly hired workers would affect the existing Civil Service Retirement program. Some of the members seated here today remember the promises made to railroad workers. Many of those promises are being restated today. If you were in our position, would you feel comfortable hearing these same statements? We suggest not.

Again, Mr. Chairman, I thank you for this opportunity to appear before this committee. I stand ready to respond to your questions.

CHART 1. PROJECTED GAIN ASSUMING 100,000 NEW HIRES PER YEAR, NO ATTRITION IN WORK FORCE

	Salary	New hires	Revenues (millions)
Fiscal year:			
1984	$13,815	100,000	$157.5
1985	14,367	100,000	327.6
1986	14,942	100,000	511.0

CHART 1. PROJECTED GAIN ASSUMING 100,000 NEW HIRES PER YEAR, NO ATTRITION IN WORK FORCE—Continued

	Salary	New hires	Revenues (millions)
1987	15,539	100.000	708.6
1988	16,161	100,000	985.6
1989	16,808	100,000	[1] 1.23
Total revenues gained			[1] 3.92

[1] In billions.

CHART 2. NUMBER OF COVERERD EMPLOYEES ON THE ROLLS IT WOULD TAKE TO PRODUCE THE AMOUNT OF CONTRIBUTION TO THE SOCIAL SECURITY FUND (USING TODAY'S AVERAGE ENTRY RATE OF A GS-5, STEP 4 AT $13,815 TODAY, ASSUMING AN ANNUAL YEARLY PAY INCREASE OF 4 PERCENT 1984 THROUGH 1989)

	Entry rate	OASDI rate (percent)	Claimed gain (billion)	Number employees required
Fiscal year:				
1984	$13,815	5.7	$0.3	190,487
1985	14,367	5.7	1.0	610,000
1986	14,942	5.7	1.6	939,000
1987	15,537	5.7	2.2	1,240,000
1988	16,161	6.06	2.9	1,480,000
1989	16,808	6.06	3.7	1,800,000

CHART 3. DOLLAR GAIN VERSUS PAYROLL NEEDED

[In billions]

	Claimed gain	Payroll necessary to support this amount
Fiscal year:		
1984	0.300	2.632
1985	1.000	8.722
1986	1.600	14.035
1987	2.200	19.298
1988	2.900	23.927
1989	3.700	30.528
Total		[1] 99.15

[1] 6 year total.

CHART 4. BASELINE SOCIAL SECURITY GAINS ON NEW HIRES USING REALISTIC NEW HIRES, DECLINING EMPLOYMENT AND TURNOVER OF HIRES

	Salary	New hires [1]	Additional S.S. revenues (millions)
Fiscal year:			
1984	$13,815	93,000	$146.5
1985	14,367	78,000	280.0
1986	14,942	65,500	408.0
1987	15,539	54,600	515.0
1988	16,161	45,600	664.0

CHART 4. BASELINE SOCIAL SECURITY GAINS ON NEW HIRES USING REALISTIC NEW HIRES, DECLINING EMPLOYMENT AND TURNOVER OF HIRES—Continued

	Salary	New hires [1]	Additional S.S. revenues (millions)
1989	16,808	45,600	784.0
Total		382,300	[2] 2.8

[1] Full time permanent employees.
[2] Billions.

Note: AFGE projections.

APPENDIX

The Federal Government's Contribution to the Civil Service Retirement System as a Percentage of Total Covered Payroll—Fiscal Year 1983

Under current policy

1. Covered payroll—$64,000,000,000.

This estimate is derived from the Annual Report of the U.S. Civil Service Retirement System, September 30, 1981. We have adjusted the report's $64.6 billion estimate for covered payroll, which assumed a 5-percent federal pay raise for October 1, 1982, to reflect the 4-percent pay raise federal workers actually received.

2. Total government contribution to the Civil Service Retirement System—$20,884,277,000.

Federal agency matching contribution	$3,311,550
Postal Service matching contribution	890,925
Federal payment	15,202,572

(a) Payment of annuities under special acts.

(b) Transfers for interest on unfunded liability and payment of military service annuities.

(c) Payment for projected benefit increases due to pay raises and benefit liberalizations (amortized over 30 years).

Postal Service payment	$1,136,961
Supplemental	342,269
Total	20,884,277

Source: Appendix to the Budget of the United States Government Fiscal Year 1984, p. V-102; V-103.

3. Total government contribution to the Civil Service Retirement System as a percentage of covered payroll.

Government contribution $20,884,277,000/Covered payroll $64,000,000,000=32.6 percent.

If Federal workers had been granted a pay increase based on full comparability

in order to make a fair comparison between the payroll costs of pensions in the federal government and the private sector, both the government payroll and the government contribution must be adjusted to reflect levels consistent with full pay comparability with the private sector.

1. Covered payroll—$71,024,000,000.

To obtain this new estimate, the federal and postal shares of the $64 billion payroll under current policy had to be separated out. This was done on the basis of the ratio between direct compensation of federal and postal workers for fiscal year 1983, derived from the fiscal year 1984 budget. The federal share ($48.545 billion) was then adjusted for the 14.47 percent gap between federal and private sector pay, yielding a new federal payroll of $55.569 billion. Adding back the postal share of total payroll results in the new total covered payroll of $71.024 billion.

2. Government contribution—$20,406,277,000.

The Congressional Budget Office has estimated that the 4-percent pay increase received by federal workers on October 1, 1982, actually reduced the net government contribution to the Civil Service Retirement System by $132 million. If the full 18.47-percent comparability increase had been received, a simple extrapolation of the CBO estimate yields an additional $478 million worth of savings to the federal government.

Source: CBO, "The Budgetary Treatment of Federal Civilian Agency Pay Raises: A Technical Analysis" p. 12.

3. Total government contribution to the Civil Service Retirement System as a percentage of covered payroll.

(Government contribution $20,406,277,000)/(Covered payroll $71,024,000,000) = 28.7 percent.

Other mitigating factors

1. The frequent failure of the government to pay its match of employee contributions to the CSRS between 1920 and 1957 thereby creating the "unfunded liability" problem in the first place.

2. The failure of the federal government to grant full comparability pay increases in previous years.

3. The relatively poor performance of the CSRS investment portfolio, which is exclusively comprised of government securities.

The cumulative effect of these factors over time has led directly to greater unfunded liabilities, and thus, higher government contributions today than would have occurred had the federal government lived up to its compact with federal workers in the past.

Although the full impact of these factors is difficult, if not impossible, to quantify, a conservative estimate accounting for these factors would lower the governments contribution to CSRS to 25 percent of payroll.

APPENDIX

A COMPARISON OF EMPLOYEE AND EMPLOYER PENSION CONTRIBUTIONS IN THE FEDERAL GOVERNMENT AND THE PRIVATE SECTOR

1. Government employees contribute 37.3 percent more of their pay to their retirement than do their private sector counterparts

Federal and postal employee contributions—7 percent of payroll. Private sector employee contribution—5.1 percent of payroll.

The private sector employee contribution figure is derived from Bureau of Labor Statistics and Chamber of Commerce surveys of employee benefits in 1981 which found that (1) the effective OASDI tax rate was 5.1 percent of payroll for private companies, and (2) that 94 percent of all supplemental pension plans in the private sector were entirely employer-paid.

(Federal and postal employee contribution 7 percent)/(Private sector employee contribution 5.1 percent) = 1.373.

2. The Federal Government contributes 35.9 percent more of its payroll to retirement plans than do Fortune 500 companies

Federal government contribution to CSRS—25 percent of payroll. Fortune 500 contribution to OASDI and Supplemental plans—18.4 percent of payroll.

The Fortune 500 contribution was obtained from a Washington Post editorial of February 4, 1983, which stated that "pensions in Fortune 500 companies run in the range of 22 to 25 percent of payroll, including both worker and employer social security taxes." We then took the midpoint of this range and subtracted the 5.1 percent of payroll represented by the employee contribution to OASDI.

(Federal government contribution 25 percent)/(Private sector contribution 18.4 percent) = 1.359.

APPENDIX

NORMAL COST COMPARISONS

Normal costs are the percent of pay an employee would need to contribute to a retirement fund over his/her working life to provide for his/her retirement benefits.

Normal cost estimates for the Civil Service Retirement System are extremely sensitive to economic assumptions. Normal cost estimates for CSRS range from 36.5 percent to 31.2 percent (or 29.5 percent to 24.2 percent once the employee's contribution is deducted). CBO in surveying these estimates concluded the 31.2 percent figure was most accurate (see CBO, "Contracting Out for Federal Support Services", October 1982).

Continued success against inflation will drop this figure even lower.

Changes enacted in the fiscal year 1983 reconciliation reduces this by 1.3 percent, according to CBO, leaving 22.9 percent as the employer share of normal cost.

The Employer Benefit Research Institute (Sylvester Schieber, "The Cost and Funding Implications of Modifying The Civil Service Retirement System", August 19, 1982, p. 3.) estimates the normal cost for private sector pensions as 7-12 percent over social security contributions. Normal costs then equal 17-22 percent of payroll. (Combined employer/employee contributions for OASDI are currently 10.2 percent of payroll according to the Chamber of Commerce survey of employee benefits).

Proposed OASDI tax increases, plus scheduled changes in the social security payroll ceiling will boost the private sector normal cost by another 1.5 percent by 1988.

APPENDIX

IMPACT OF CLOSING CIVIL SERVICE RETIREMENT SYSTEM

Dynamic unfunded liability is not really a useful concept in the current pay-as-you-go system. The government will not go out of business. Higher pensions will be paid by higher-paid federal employees in future years.

But if the system is closed, the dynamic unfunded liabilities would have to be amortized. If the debt were amortized over 40 years, the effect on the government contribution as a percent of the payroll is illustrated below:

	Covered payroll if there are no changes in CSRS[1] (in billions) (1)	Current Government contribution as a percent of payroll[1] (2)	Government contribution if the unfunded liability is amortized over 40 years[2] (in billions) (3)	Amortized Government contribution as a percent of payroll ((1) as a percent of (3)) (4)	Increased Government contribution as a percent of payroll (difference between (2) and (4)) (5)
Fiscal year:					
1983	64.0	32.5	29.6	46.3	13.8
1984	68.0	32.6	31.2	45.9	13.3
1985	71.6	32.4	31.5	44.0	11.6
1986	75.4	32.2	34.2	45.4	13.2
1987	79.4	31.8	35.5	44.7	12.9
1988	84.0	31.5	36.7	43.7	12.2
1989	88.8	31.4	37.7	42.5	11.1

[1] CSRS annual report, p. A-5.

[2] Sylvester Schieber, Employee Benefit Research Institute, "The Cost and Funding Implications of Modifying the Civil Service Retirement System," Aug. 19, 1982, p. 24.

Mr. **ANTHONY**. Our next witness is Alpha Omega Edmondson, representing the SOS Coalition of Greater New York. Mrs. Edmondson.

STATEMENT OF ALPHA OMEGA EDMONDSON, REPRESENTING NEW YORK COALITION TO SAVE OUR SOCIAL SECURITY

Mrs. **EDMONDSON**. Good morning.

Mr. Iberg could not be here today, so I am replacing him.

We wish to extend our commendation to the Commission for their efforts to resolve the social security system's serious problems.

We recognize that a solution is needed, but we believe that the compromise package has some serious flaws which are detrimental to the health, welfare, and security of the older American, the handicapped, and our youth.

We oppose certain key elements of the package, such as permanently delaying COLA adjustments, taxation of one-half of social security benefits, changing of the COLA base, and increasing payroll taxes.

These measures will be an unfair and unnecessary burden for current and future beneficiaries.

COLA adjustment cuts will dramatically increase the elderly poverty rates. The lowest paid segment of the older population, especially women 72 years and older, will bear the brunt, since they rely on social security for 85 to 95 percent of their total income.

Millions of elderly persons living below or just above the poverty line will suffer even more deprivation. Taxing one-half of social security benefits for millions of the elderly who may fall over the limits of this proposal will result in an abrupt drop in income and an unfair change in the rules.

Folks, a single taxpayer just over the limitation with $5,000 to $6,000 in social security benefits would have an increased tax liability of approximately $774. A married couple, $942. State and municipal taxes would probably rise proportionately. Thus the door would be open to taxing benefits of most older persons in the future.

For example, note what happened to unemployment taxation. It started out at a high level, $20,000. Now I believe a single person is $12,000. Changing the COLA base from CPI to wages violates the very purpose of COLA, which is simply to maintain the purchasing power of each social security dollar.

We oppose increases in social security payroll taxes unless they are accompanied by a refundable income tax credit. This tax credit should also apply to health insurance taxation.

There are other alternative sources of revenue, such as regular infusions of general revenues, issuance of bonds, closing of existing individual and corporate loopholes, subjecting the entire payroll of employers to payroll taxation by employers, taxing windfall profits, or escalating prices of deregulated natural gas, limiting and reducing the military budget, and a deceleration of military build-up.

The SOS Coalition of New York will continue to follow and participate actively in the legislative process by the House and Senate. We believe this process should be fully democratic for all issues affecting American lives, and should not become a procedural straitjacket.

Please, I beg you, end the rhetoric that has terrified our elderly and shaken the confidence of younger workers.

Ask yourselves, would I like or want to change places with the average older American today?

May I leave with you a simple thought or prayer that I say each morning? Thank you, God, for one more day. Grant that I may live to see a world in which the strong are just and the weak secure. Thank you.

Mr. ANTHONY. Thank you, Mrs. Edmondson.

[The prepared statement follows:]

STATEMENT OF ALPHA OMEGA EDMONDSON

Good morning. My name is Alpha Omega Edmondson and I am testifying on behalf of the New York Coalition to Save Our Social Security (S.O.S.).

Formed in 1979, the New York S.O.S. coalition consists of every major senior citizen organization in New York, including representatives of senior centers, clubs affiliated with the major religious charities and chapters of union retirees. Over the past four years, our S.O.S. coalition has been educating New Yorkers of all ages about the importance of the social security system and about the unprecedented attacks on America's most successfuf social program. We have worked with members of Congress from New York toward strengthening the role of social security in providing retirement income to current and future generations of Americans.

Since its beginning, S.O.S. has believed and continues to believe that the financing problems of the Social Security System can and must be solved without any reductions in the present level and structure of benefits for both current and future beneficiaries. We have been appalled at the atmosphere of hysteria created by those who have opposed social security from its very inception. We urge all of you as public officials to end the irresponsible rhetoric that has terrified the elderly and shaken the confidence of younger workers in the system's future.

New York S.O.S. has followed very closely the deliberations of the national commission on social security reform. We have sent representatives to virtually each public meeting of the commission, have reviewed its many memorandums and have studied carefully its final report. Many of the commission's recommendations are sound and have our support. However, the commission's agreement also includes recommendations that are inconsistent with the basic principles to which our coalition is dedicated.

First, we wish to commend the commission for its ringing endorsement of the fundamental structure and role of the social security system. We applaud its strong rejection of those schemes that would critically alter or even destroy the system—namely, making social security voluntary, or basing benefits on means tests, or trimming its social insurance features.

Second, we support those recommendations of the commission that will improve the system's financing without hurting current beneficiaries, without reducing the role of social security for future beneficiaries and without further burdening current workers. These recommendations include:

Continuing interfund borrowing;

Improving trust fund investment procedures;

Providing general revenue reimbursements to the trust funds for military service credits and uncashed checks;

Providing Federal income tax credits to offset increases in payroll tax increases;

Improving benefits for women; and

Increasing the delayed retirement credit.

Third, we strongly oppose four recommendations in the commission's agreement and one additional supplemental recommendation. Before we indicate these and the reasons for our opposition, we wish to express our concern over the extremely pessimistic assumptions on which the commission based its estimates of the system's short- and long-term financing needs. These gloomy projections include a continuation of devastatingly high unemployment, of low productivity and of overall economic decline—in short, a continuation of Reagonomics. We believe America can and will do better than this. In particular, we urge immediate action by Congress to end the tragedy of unemployment that more than any other single factor has robbed the Social Security System of needed revenues and may doom future generations of retirees to inadequate social security benefits based on their work histories.

The following are those recommendations which we oppose:

Permanently delaying cost-of-living adjustments: We believe that this recommendation would force millions of elderly and disabled poor and near-poor to sacrifice the necessities of life that social security checks are relied on to provide. If inflation continues at even just 5 percent a year from 1984 through 1989, the average social security beneficiary would lose over $800, which amounts to an overall reduction in benefits of 2½ percent. This is asking people whose budgets are already stretched to the breaking point to give even more.

Altering the COLA base beginning in 1988: Changing the base for providing COLA from prices to wages, if wages are lower, violates the very purpose of the COLA—to simply maintain the purchasing power of each social security dollar. The Commission calls this a method of "stabilizing" the system. We call it a sure way to destabilize the lives of millions of older and disabled Americans in the future. Although the Commission does recommend possible paybacks later on, for many this will mean too little too late since they will already have to make do with much less in the meantime. And that meantime is sure to be a mean time for us.

Subjecting half of social security benefits to income taxation: Although the Commission's recommendation would only affect one out of ten of today's retirees, it opens the door to taxing the benefits of most retirees in the future. We note what has happened to unemployment benefits since they were first subject to taxation. This is a dangerous precedent.

Increasing payroll taxes in 1988: We urge that this increase also be accompanied by a refundable income tax credit, in order to make it less burdensome for today's workers.

Gradually raising the retirement age: Although this is not itself part of the bipartisan agreement, it does have the support of a majority of the Commission and we understand it is being looked at favorably by members of this subcommittee. We believe that forcing people in the future to work longer will cause serious hardship to those who have no control over their health and lifespans. This recommendation sends the wrong message to today's workers and could seriously shake their support for social security. We are adamantly opposed to this or any other reduction in the level of benefits for future generations of retirees—such as changing the bend points or increasing the penalties for early retirement.

We realize that the Commission had before it a wide variety of options to meet the projected shortfalls. These five which I have discussed are not necessary. We suggest alternative sources of revenues, such as regular infusions of general revenues, stand-by loans from the Treasury to be repaid in the 1990's, the issuance of bonds by the Social Security Administration, and subjecting the entire payroll of employers to payroll taxes by employers. We note particularly that this last option would raise at least the same $40 billion from 1984-1989 that the 6-month COLA delay would. It would also not result in higher benefits later on and so would not hurt the system's long-range situation. Finally, since most employers can write off increased payroll taxes as business expenses, this option would not harm business development.

The S.O.S. coalition of New York will continue to follow closely and participate actively in the legislative process in both the House and Senate. We strongly believe that this process should be fully democratic and that legislation on so critical an issue in the lives of all Americans not be forced into an all-or-nothing procedural strait jacket.

Recent years of recession and near-depression, including critical cuts in social programs, have plunged millions of older and other Americans further into poverty. We urge all Members of Congress to rise to the challenge of improving the dignity and security of older Americans.

Mr. ANTHONY. Mr. Archer, do you have any inquiries?

Mr. Shannon?

Mr. SHANNON. Thank you, Mr. Chairman.

Mr. Sweeney, I want to just take a moment to commend you and your organization for the work that you have done on this whole issue of nonprofit institutions.

As you may know, I have a hospital in my district, which, a couple of years ago, gave notice of its intention to opt out. There was no waiting period and the hospital never bothered to inform the employees, some of whom were members of your organization. Luckily, SCIU found out what was going on and was able to alert the employees. Hopefully we are going to solve the whole problem in this legislation and everybody will be able to stay in social security, but I just want to thank you on behalf of my constituents for your work there.

Mr. SWEENEY. Thank you very much, Congressman. I think that it is really that the proposed Commission recommendation is a step in the right direction, protecting these people.

Mr. SHANNON. Mr. Sweeney, let me ask you if I can go just a little bit further. It seems to me that the opting out problem cuts particularly heavily against low-income workers. I think in the hospital area, for instance, there is great turnover in employment. A lot of people have discovered that they had pension programs which weren't portable when they changed their jobs.

Would you like to comment a little bit further on how you feel the prevention of opting out will cut in various income categories?

Mr. **Sweeney**. Well, it does directly affect more low paid workers than higher paid workers, and most of these workers are service workers.

To even think that social security could have been cut out from them without any knowledge or any expression on their part is really a horrible inequity, and there is no way that these people can receive any kind of comparable pension plans, nor can these institutions provide that kind of a basic retirement system.

As you mentioned, there could be no portability, and many of these workers do go from one institution to another, so I think that the recommendations of the Commission are a great protection for these low-paid workers.

Mr. **Shannon**. Why do you think it was that some institutions tried to opt out as one in my district did?

Mr. **Sweeney**. I really think it was for a variety of reasons. In some cases the institution thought that they would be saving money. In other cases I think that the institutions thought, or were convinced by some outside consultants, that they would be able to provide a similar pension plan to social security.

We all know that there is no way that a private pension plan could substitute for the benefits of a social security——

Mr. **Shannon**. Except for the highest paid employees who are probably the ones who make the initial decision to opt out. It has always struck me that these decisions to opt out were benefiting a very small number of people at the top ranges of these institutions.

Mr. **Sweeney**. And the surprising thing is that it has been really limited to different geographical areas of the country. It hasn't been all across the country. The most heavily hit have been the health care institutions in the midwest, particularly in Illinois.

Mr. **Shannon**. Thank you, Mr. Sweeney.

Mr. **Sweeney**. Thank you.

Mr. **Shannon**. Let me just say briefly to Mr. Blaylock and Mr. Connery, we understand the concerns that you have about your membership, and we are going to try as best we can to address those concerns as we go through this legislation.

Certainly public employees, Federal employees, do have a right to know that the commitment that the Congress has made to them is going to be kept. I think that what you are asking is that that commitment be kept. I am going to support this package. I am certainly going to support the effort to bring in Federal employees perspectively. I hope that should we prevail in that we are going to be able to work with you to try to give your members the kinds of assurances that they need.

Thank you very much.

Mr. **Anthony**. Mr. Conable?

Mr. **Conable**. I would like to ask Mr. Blaylock a couple of questions if I may, sir.

In your statement you say that some 55 percent of Federal annuitants do not receive social security or any other form of annuity or pension.

Do you have any idea how many people over the age of 62 do?

In fact, I would suppose it was a small percent, like 55 percent only because there are many Federal retirees who are under the age of 62.

Mr. **Blaylock**. Mr. Congressman, I don't have that information right at my fingertips. We have been analyzing the data coming from Government sources, and we will be more than glad to provide it to you.

Mr. **Conable**. I would be interested in that because we hear a lot of statistics about Government employees.

Mr. **Anthony**. Would the gentleman yield?

Mr. **Conable**. Yes.

Mr. **Anthony**. The staff has put together some information and a recent study has found that 75 percent of all Federal retirees over 62 are entitled to social security benefits, and that that percentage is steadily increasing, if that is the inquiry of the gentleman.

Mr. **Conable**. There are statistical inquiries of this sort that I would like to get resolved.

For instance, what basis do you have for the statement on page 15 that 99 percent of all Federal retirees retire at age 62 or older, two-thirds retire at age 65 or older.

Do you mean they retire from Federal employment at age 62 or older?

Mr. **Blaylock**. Yes, sir. Those figures come from the Office of Personnel Management.

Mr. **Conable**. How does that square with the fact that career employees can go out at age 55?

Mr. **Blaylock**. They can go at 55, but that squares by virtue of the fact that they do not. They can retire at age 55 but there is not a mandatory retirement system in effect in the Federal Government.

Mr. **Conable**. We will have to check that. That does not make much sense in terms of logic, because it is possible for them to retire much earlier——

Mr. **Blaylock**. There is an assumption that everybody takes advantage of this lucrative system and goes out at 55 and works another 20 years in the private sector. A lot of Federal workers believe in their job and do not retire at age 55.

Mr. **Conable**. At the top of page 15 you say 22.6 percent of all Federal retirees receive less than $500 a month. Do you have any idea what percentage of those are lifetime employees? Very few, I would assume.

Mr. **Blaylock**. That have gone the full 30 years, you mean?

Mr. **Conable**. Yes.

Mr. **Blaylock**. I do not know how many of them have gone 30 years.

Mr. **Conable**. I understand that lifetime Federal employees retire with an average of $1,065 a month.

Mr. **Blaylock**. I think if you will check again the Office of Personnel Management's recent figures you will see that that figure is 900-something, just a little under a thousand is the average.

Mr. **Conable**. I am glad to know the source of your information here and we will check that out. We have all kinds of statistical aberrations that we are finding very hard to reconcile.

Mr. **Blaylock**. We have the same problem with those you have been using.

Mr. **Conable**. Survivorship benefits are better, are they not, under OASDI than for the Federal annuitant? Your statement that they receive less than $500 a month may be a condemnation of the Federal system in relation to OASDI. I understand that point. I am glad to know the source of your information. I wanted to have that, because——

Mr. Blaylock. We would be glad to provide that information.

Mr. Connery. I understood that to be the case, and I wanted to check it out.

Mr. Conable. Thank you.

Chairman Pickle. Mr. Fowler.

Mr. Fowler. Mr. Sweeney or Mr. Connery or anyone else, all groups that are appearing before us and coming in automatically or consistently are opposing any change in the retirement age. And though I assume it could be said that we are all very sympathetic with people who can work with their hands and work with their backs, the difficulty of working much past 60 or 65 or something, also millions of Americans like us Congressmen, you know, where there is no heavy lifting—it is all indoor work—I wonder if you could tell me whether or not you in your leadership capacity view the age of 65, which we have had since the beginning of the system, in light of medical advancements, people living longer, all the statistics with which we have been bombarded, is 65 forever sacred? How should we be looking at this issue?

Mr. Connery. I think there were some remarks earlier today which indicated that there are some mixed feelings on that by groups and experts who have studied the issue. It is one thing to say that the American public is living longer. It is another to say whether they are living better or living stronger.

Mr. Fowler. I am talking about from the union perspective. I notice some of the businessmen coming in and being for it, but all the people whose leadership supposedly represents the working man and woman are saying no. Is it always going to be no?

Mr. Connery. Well, from the people that I have observed, I know of very few that are getting better after 65. And the fact of the matter is, in the tax field, which we heavily represent, those people are discernably dropping in sharpness and in aptitudes, quickness and so forth, and become somewhat of a burden around the office, frankly. And one of the reasons that they do not retire is that they are finding more and more these days that they cannot retire because of the changes in the living costs and family burdens that everyone is encountering. And that refers to a previous question.

Mr. Fowler. You would argue for a lower retirement age?

Mr. Connery. I would certainly not go below 65.

Mr. Fowler. Mr. Sweeney, what do you have to say about that?

Mr. Sweeney. We have to understand that if a worker works all their life under the assumption that they will be able to achieve some kind of retirement and the ability to enjoy the last years of their life, that it is a tremendous crisis in their minds if that age, whatever the age might be, is going to be changed and that they are going to have to work longer than they had projected.

Mr. Fowler. What if we set the retirement age at 66 or 67 in the year let us say 2035, which means it would not affect anyone now in the work force?

Mr. **Sweeney**. That is a consideration. It would be—we really have to look to the younger workers to see what their thoughts are on this.

Mr. **Fowler**. You are not going to come back next week and talk about the rights of the unborn, are you?

Mr. **Sweeney**. No, but I have a few years until 2035 to consider.

Mr. **Connery**. I would like to join Mr. Sweeney in this response. The idea of changing things in the middle of the road or changing things when a whole host of people are down into the age of retirement is a concern of our membership.

Mr. **Fowler**. Well, nobody is proposing that, Mr. Connery. I think in all fairness to all sides and all ideologies nobody is proposing that. We are trying to grapple with the question of folks living longer and all the older American groups, most of them want to work longer. We have this tremendous activism of how to ensure they can work longer because they think they are getting better. You say some of your people are not getting better and some of my people are not getting better, but there is certainly more than one side—the number was arbitrary in the first place as everybody knows, and I do not understand the automatic rejection of discussion of this issue. Sixty-five has suddenly become sacred, and forever written in granite.

Ms. Edmondson.

Ms. **Edmondson**. I wanted to say I agree with the gentlemen. When I was in the work force I saw many of my working colleagues who even at 63 and 62 were beginning to lose their abilities. They did not think as well as they should, they became very slow. On the other hand, others at the same age were very, very alert, very much on the go. Sixty-five to me represents a good retirement age. Forcing people to work longer in some cases will cause hardships because they have to work until say 66 or 67 before they collect social security. Perhaps they might not have a bad heart, they may not be handicapped to the extent that they cannot get to work, but yet their abilities, their mental abilities and so forth are affected so that they can really not work, and yet they cannot collect social security. And to say that you will raise the age maybe 5 or 6 or 7 years from now does not make too much sense. We do not know what the situation in the work force or what the situation in this country will be 5 or 6 years from now that we should say people should retire at an older age. Maybe they should and maybe they should not, but now is not the time to decide it. Again you are creating fear.

Mr. **Fowler**. Ms. Edmondson, my time is up, but may I ask you a personal question?

Ms. **Edmondson**. Surely.

Mr. **Fowler**. The chairman and Mr. Anthony and I are all from Bible land and with a name like Alpha Omega, we want to know whether you have any brothers and sisters.

Ms. **Edmondson**. I have not. I am an only child. I had an aunt who is very religious. She named me Alpha Omega from the Bible, as you know, the beginning and the end. It is also the first and last letter of the Greek alphabet. Incidentally, I am a senior citizen. I will be 71 next month.

Chairman **Pickle**. If you want to get into a discussion of names, I might want to get into this conversation also.

Mr. **Fowler**. I welcome the chairman. Thank you all very much.

Ms. **Edmondson**. Thank you.

Chairman **Pickle**. Mr. Gradison.

Mr. **Gradison**. Thank you, Mr. Chairman. I have had difficulty as I have thought about the issue of coverage of the Federal employees in understanding why there would be any objection at all to the coverage of new hires. If it were up to me I would go much beyond that. The letters I have received, which are numerous, talk about the damage this would cause to the present retirement systems. As I look at the budget figures, they suggest that the annual cost, as a percentage of payroll is about 37 percent for the civil service plan, of which only 7 percent currently comes from the employees, so basically it appears that the present pension system depends upon appropriations from the general Treasury in any event.

So I guess my question goes along this line. The Federal Government has actually tried this successfully by bringing in a very large group of Federal employees who happen to be the military, and they are covered by social security. Is there any evidence from our experience in the coverage of the military which would lead any of you to believe that the bringing in of the military on a mandatory basis under social security damaged the retirement benefits of the military from their own pension plans?

Mr. **Blaylock**. Mr. Congressman, I do not know that there is any evidence to show that. The military budget always has specialized treatment and there is a commitment made to the military. You have the 20-year retirement in the military and Congress is going to fund it. That commitment is there.

You have to understand that the Federal workers today have been used as scapegoats by Congress and the administration and have seen benefit after benefit cut, and been blamed for all the inefficiencies of Government. Federal workers are paranoid that Congress has no commitment to them. They are told Congress is going to change your retirement system because we want to bail out the social security system, and that is not a justifiable reason in their minds. Their concern is that the commitment is not there.

For 37 years the Congress did not make a dime of contribution to the employees' retirement plan. That has created the unfunded liability, or a portion of it. Ten billion dollars of what you are appropriating every year is interest on a debt that you did not pay—that should have been paid—over the years. Now you are saying we have to pay a lot more for your retirement plan. Federal workers are paranoid, and we think rightfully so.

Mr. **Gradison**. I am going to have a series of town meetings in my district starting this weekend. I have had a lot in the past. I find it impossible to explain to my constituents why, if social security is such a neat plan and mandatory for them, it is not simply required of those who administer the social security program and write the social security laws. If you were in my shoes, how would you explain to my constituents why new hire Federal employees should not be mandated under social security, but why they cannot be permitted on a voluntary basis to withdraw?

Mr. **Blaylock**. First off, the issue has been raised not by the average citizen but it has been developed by advocates of universal coverage over the years. The public has been educated to ask that question. You have only 93,000 social security workers that provide services for 140 million people in this country. People working for DOD do not administer the social security program, and neither does the Veterans' Administration.

Mr. **Gradison**. Do you think we should cover those 93,000?

Mr. **Blaylock**. I do not think so for a different reason than the point that is made in our testimony. You have a current staff retirement system that is funded and that is operating. You do not correct one wrong by putting two together. You are not going to gain the amount of money they are talking about to fund the social security system. It is purely a political question.

Mr. **Gradison**. Thank you, Mr. Chairman.

Chairman **Pickle**. Mr. Anthony.

Mr. **Anthony**. Thank you, Mr. Chairman.

Would the members of the panel agree that if the Congress decides to include new Federal hires that we would be making a fairly substantial contribution to solving the long-term social security shortfall?

Mr. **Connery**. Absolutely not for me.

Mr. **Sweeney**. I do not believe so.

Mr. **Blaylock**. No, sir. The truth is with the number of new workers coming in over 6 years you are going to pick up only about $2 billion.

Mr. **Anthony**. What bothers me is you give your set of figures and I read other sets that say it will pick up 28 percent of the taxable payroll, a contribution towards the long-term deficit, so we have to balance that out. I must admit that I have been better educated on all of these plans in the last few weeks. I did not know, for instance, that there were 38 separate plans that comprised 51 different total components.

As we have heard Mr. Ball and Mr. Myers, they have laid out some fairly interesting facts, and I wondered if you could respond. On a new hire, from reading the record, it appears that over half of all of the workers that enter the Federal employment will eventually leave Federal service with no eligibility for civil service retirement. In other words, you have the vesting problem, the 5 years, and it says that about 50 percent of the work force come in, do not work the 5 years, do not get vested, so they leave having made a contribution but not being eligible for benefits, so they can either withdraw the benefits, earning no interest on them, having not been paying into the social security system, so when they leave they have a low earnings base on which to apply in later years for social security benefits. Yet if you put new hires in, they would at least be guaranteed that they would have some benefits coming to them if they left the Federal service because of their payments into the social security system, and not only for retirement benefits, but they have family and survivor benefits. They also have disability protection, and I must admit that having looked at it, it appears to me that it makes a great deal of sense to protect especially that low-income Federal worker who does leave without vesting that he ends up getting a hell of a good deal rather than getting a bad deal.

Mr. CONNERY. How about the person that is in the system that believes—there is a mixing of apples and oranges here.

Mr. ANTHONY. I am trying to compare it.

Mr. CONNERY. For instance, in regard to the question concerning the feeling about people that are in the system or out of the system, now, actually, the people we represent in the Federal system, look on this as a Federal annuity, a retirement system. We deny that social security is a retirement system. We say that social security was instituted in the mid-thirties as an income supplement.

Mr. ANTHONY. That is a given.

Mr. CONNERY. These things are confused.

Mr. ANTHONY. I do not disagree with the present worker. I am talking about a new worker. Let me set the premise correctly. I am a new worker. I say if I pay in I have to work for 5 years before I qualify, yet if I go in under the new system I immediately take away with me benefits if I do not work the full 5 years. Personally, I think I will be better off under the new system.

Mr. CONNERY. There is also the factor of the thousands and millions in the system. What we are pointing out is, that if the new hires are cut-off from contributing into the pot, then the system dies. It dies within 20 years, and is then subject only to yearly kick-ins by the Congress.

Mr. ANTHONY. It is subject to the will of Congress, which it is subject to the will of Congress today.

Mr. BLAYLOCK. That is the major concern. We are representing current Federal workers. The current Federal worker is concerned about the soundness of his retirement system. He/she has already witnessed the fact that his/her employer did not make contributions and now comes back to use that against them. Employees are concerned about the commitment of the future Congresses to see that their retirement is maintained until they retire or until they die. That is what we are representing and what the position comes from.

Mr. ANTHONY. That is a valid position and a position that any responsible Congress is going to respond to, and I cannot conceive of the fact that this Congress would include new hires without reciprocating by giving current beneficiaries and workers some solid assurance that they can bank on. Personally I have an opposite viewpoint from what Dr. Carlson had. I do not think we have paralysis of leadership, I think we have a prerogative of leadership, and sometimes that disagrees with his viewpoint. I hope the Congress would act responsibly in trying to insure people that their benefits will be forthcoming, the system will not go bankrupt, and try to address the long-term funding deficit for the social security system.

I appreciate your testimony, and I hope you work with us as we work through this very, very tough political and economic issue.

Chairman PICKLE. I want to thank the panel for their testimony. We all recognize that this is a controversial matter that has been before us for a long time. We also recognize that it is a key part of the package that has been recommended by the National Commission. As we approach it, though, I think you ought to know that every member of this subcommittee is very conscious of the fact that if we were to go in this direction, that Federal employees have every right to be given assurance that their fund is protected, that is the current workers, and that equity is achieved in whatever approach we take. That is a yardstick I think we are going to use, and we are examining it closely, and we are trying to see which direction we go. This will be under full consideration. We will be glad to continue with you as we go along with consideration of this bill. I thank you all for your testimony very much.

Mr. **Blaylock**. Thank you very much, Mr. Chairman.

Chairman **Pickle**. Now the Chair will ask the following people to come forward: Mr. Cyril Brickfield, Mr. Max Manes, Ms. Isabella Shapiro, Margaret Kuhn, and Jacob Clayman.

In order that we can be certain we have each one of the panelists identified, as I present you will you just raise your hand so that members of the audience would know?

First, we will have Mr. Cyril Brickfield, executive director of the American Association of Retired Persons. May I ask also if—does the panel care which way we go? Since we have Mr. Brickfield first, I will go from right to left. Does it make any difference? We will follow this order then. Mr. Brickfield, we are glad to have you.

Next will be Max Manes, chairman, Seniors for Adequate Social Security. You are not next, but we will recognize you and proceed in order.

Then Mr. Jacob Clayman, president of the National Council of Senior Citizens.

Then we have Isabella Shapiro, Caring Community Senior Center.

Then we have Mr. Manes, as I mentioned.

Then we have Margaret Kuhn, representing the Gray Panthers.

We are pleased to have all of you, and we will let each person make his or her statement, and then we will open it up for the questions by the committee. I also might say to the audience that this is the last panel for the day. We may go through the lunch period, if that is agreeable, so that we will not have an afternoon session, if that is agreeable to everybody. If anybody is on a tight schedule, we will recognize you earlier if you want.

Then Mr. Brickfield, will you proceed? And all of your statements will appear in the record in their entirety.

STATEMENT OF CYRIL F. BRICKFIELD, EXECUTIVE DIRECTOR, AMERICAN ASSOCIATION OF RETIRED PERSONS

Mr. **Brickfield**. Mr. Chairman, I have a short statement and a rather lengthy one, and I ask permission that both be incorporated into the record.

Chairman **Pickle**. Mr. Brickfield, let me ask you—will you pull that microphone closer to you and speak right into it?

Mr. **Brickfield**. My name is Cyril F. Brickfield, and I am the executive director of the American Association of Retired Persons, AARP. Your committee has always had to deal with our Nation's priorities, and you have often confronted hard choices about the social security system. Rarely have you had to deal with that program under more difficult circumstances. Its financial condition demands prompt action.

There is an effort underway, Mr. Chairman, to convince everyone that the recommendations of the distinguished Commission on Social Security Reform must be accepted with no changes. Both you and we, of course, know that that is not true. Even though the Commission's report generated a rare consensus among key political leaders, agreement on a flawed prescription can produce damaging results, and we believe it has some dramatic flaws.

For example, the committee recommended revenue increases are inadequate to assure the system's short-term solvency. I would like to pause there for a minute. The Commission was asked to come in with recommendations that would assure the continued solvency of the system, but what it is presenting really is a barebones approach. They are recommending a $168 billion increase, less than half-way between the $150–$200 billion, which translates into a reserve of 10 to 12 weeks. Mr. Chairman, I would point out that in 1982, the fund started the year with a 15-percent reserve, and the reserve did not last out the year. The trustees had to borrow through interfund borrowing. This is a key issue that the committee has to address. Also the Reform Commission relies too heavily on benefit cuts and on increased taxes on workers. They are not talking about benefit cuts alone caused by the COLA freeze. They are also proposing benefit cuts from the stabilizer mechanism. The stabilizer mechanism produces no revenue. What it provides for is the cutting of benefits. And then, of course, there is the provision for taxation of benefits above a gross income of $20,000. That, too, is a benefit cut.

The Commission uses fancy language. It uses the term "benefit recapture," but I would tell you, Mr. Chairman, that is just a euphemism for benefit cuts.

The Reform Commission would increase taxes on workers, it would hasten the imminent crisis in medicare by continuing borrowing, and it would impede the economic recovery essential for dealing with both the short- and long-term problems.

We are particularly concerned about three key recommendations and those concerns flow from our keen awareness that social security is a family program.

All beneficiaries are the parents and grandparents of working taxpayers. They want for themselves no unfair or unearned portion of the Nation's economic resources, nor do they want to become an increasing burden on their children and grandchildren.

We properly represent our 14 million members only when we recognize the community of their concerns. They care about their peers. They care about their children. They care about their Nation and its economic health, and that is why we believe changes should be made in three key Commission proposals.

They are the recommended $40 billion cut in COLA benefits over the next 7 years; the recommended $58 billion increase in payroll taxes; and, the recommended taxation of benefits of those with incomes above a certain level.

The proposed COLA cut may sound innocuous and it has been widely reported that it would only mean a one-time benefit cut. That it would reduce benefits by $40 billion over 7 years, however, illustrates its compounding effect. It would most hurt those least able to afford the loss, particularly millions of widows—and I tell you that 3 million are widows—who depend on the system for 85 to 95 percent of their income.

The proposed payroll tax increase would be an unfair burden on workers by asking them to pay more—as Congress did in 1977—while telling them that they will get less in retirement.

It would also be unwise economic policy dampening chances for economic recovery, and aggravating unemployment.

The proposal to tax half of the benefits of those with incomes above a certain level would make a fundamental change in the system, introducing a back door means test. And it would likely erode confidence and support among younger workers, particularly when they come to understand that as much as 10 to 25 percent of their expected benefits will be taxed away. Instead of raising payroll taxes, cutting COLA's, and taxing benefits, we believe the needed revenue should be raised temporarily through more broadly based tax sources.

If Congress can raise over $20 billion from a nickel a gallon gas tax to build roads and bridges, it could use a similar approach with social security.

Our submission for your committee record provides a much more detailed analysis of these issues and presents our constructive alternatives.

Every opinion poll we have seen indicates that those alternatives are supported not only by our members, but by Americans of all ages. We look forward, Mr. Chairman, to working with you as you develop legislation that is responsible, effective, and fair for everyone involved.

I thank you very much.

[The prepared statement follows:]

Statement of the American Association of Retired Persons

ABSTRACT

AARP believes the package of recommendations put forward by the National Commission on Social Security Reform is an inadequate as well as inappropriate response to the system's short- and long-term problems. The package is flawed in several respects:

It fails to raise sufficient revenue to guarantee the system's short-term solvency.

It is unnecessarily burdensome for workers and retirees ($128 billion of the $168 billion raised comes from benefit cuts and payroll tax increases).

It leaves the long-term deficit unresolved; the one proposal that contributes the most to lessening the long-term deficit—taxing benefits—is irrational, sets a dangerous precedent and has its harshest impact on future retirees.

Three key elements of the package—payroll tax increases, taxing benefits and cuts in cost-of-living adjustments (COLA's)—ought to be changed.

The payroll tax increases in this package are not small; they are large, and they are on top of some of the steepest payroll tax increases in the program's history. With unemployment having reached its highest level since 1940 and with the risk of re-igniting inflation still with us, the last thing Congress should do is substantially and directly add to the cost of labor.

Taxing social security benefits must be scrutinized not just for its impact on current recipients, but for its impact on the future benefit levels of current workers. In the future, taxing benefits will reduce the benefits of the great majority of recipients, except the relatively poor. It represents a means-testing of the program, a strong disincentive to save for retirement and, over the long-term, could seriously undermine the support for the system among moderate- and higher-paid workers who will lose 10–25 percent of their benefits under this proposal.

The COLA cut recommended by the Commission is not a temporary, one-time delay; it is a permanent cut, amounting to a benefit loss of $1,100 for the average recipient and $1,800 for a couple over the next seven years. Congress must acknowledge the fact that it is a $40 billion benefit cut and that the oldest and lowest income segments of the elderly population will bear the brunt of it.

In an attempt to provide a more complete solution for both short- and long-term financing problems, AARP is recommending constructive alternatives that not only will provide the additional funds to close the system's financing gaps, but also are more fair and balanced in their treatment of workers and retirees.

For the short-term, AARP proposes that instead of relying heavily upon COLA cuts, taxing benefits or payroll tax increases, revenue should be temporarily raised from other more broadly based tax sources which would not unfairly burden workers or older Americans nor dampen chances for economic recovery. These revenues could be temporarily earmarked for the social security trust funds. Such revenues could come from a variety of sources, including increased excise taxes on alcohol and tobacco, a temporary surcharge on the income tax (or a postponement of the third year of the tax cut), energy related taxes or the closing of existing tax loopholes.

For the long-term, AARP proposes that a work promotion strategy, be pursued to encourage future able-bodied older workers to voluntarily postpone their retirement date and thus improve social security's financial situation. This strategy includes discouraging early retirement, phasing out the earnings limit for persons age 65 plus, and increasing benefit credits for those who delay retirement beyond age 65.

INTRODUCTION

The social security system is facing the most serious challenge it has ever faced in its 48 year history. Anxiety among beneficiaries over the system's short-term solvency has intensified. Public confidence—particularly that of younger workers—in the system's future viability has been dangerously eroded.

Congress now has the responsibility for developing a solution to social security's short-term dilemma—a solution that is fair and that will last at least the decade. At the same time, Congress must address the system's long-term deficit so that younger worker support for the program can be restored.

As an organization representing 14 million beneficiaries, we share in that responsibility and we realize that the well-being of the 36 million beneficiaries of social security critically depends upon the continued willingness of 116 million workers to finance the program through their payroll taxes.

It is with this perspective that our Association offers its criticisms of and alternatives to the package of recommendations made by the National Commission on Social Security Reform. We are advocates not just for older Americans, but also for the workers who support the system and who have reasonable expectations of benefiting from it when they reach retirement age.

From this perspective, AARP finds the Commission's package to be an inadequate as well as an inappropriate response to the system's short- and long-term problems. First, the Commission's package falls short of solving social security's short- and long-term financing problem. In the short term, the package only raises $168 billion—$32 billion short of the $200 billion which is likely to be needed to guarantee the system's solvency. Similarly for the long term, the package leaves unresolved one-third of the 75-year deficit, estimated at 1.8 percent of taxable payroll. Unfortunately the one Commission recommendation that contributes the most to lessening the long-term deficit—taxation of benefits—is irrational, sets a dangerous precedent, and will have its harshest impact not on current recipients, but on future recipients.

We recognize that a "compromise" solution to social security's difficulties is needed and that every compromise requires all groups to give up something. Unfortunately, the Commission's short-term package requires workers and beneficiaries to give up more than their fair share—$128 billion out of the $168 billion in the package comes from benefit cuts and payroll tax increases. For the short term, there are far less onerous and less economically damaging options available. And for the long-term, rational reform that harnesses the system's ability to influence retirement decision holds more promise than the blantant means-testing of the program achieved by taxing benefits.

Three key elements of the package—payroll tax increases, taxing benefits and cost-of-living adjustment cuts—we find to be unnecessarily burdensome for current workers and for both current and future beneficiaries.

The payroll tax increases in this package are not small; they are large, and they are on top of some of the steepest payroll tax increases in the program's history.

With unemployment having reached its highest level since 1940 and with the risk of re-igniting inflation still with us, the last thing Congress should do is substantially and directly add to the cost of labor.

The proposal to tax one-half of social security benefits must be scrutinized not just for its impact on current recipients, but for its impact on the future benefit levels of current workers. In the future, taxing benefits will reduce the benefits of nearly all recipients, except the relatively poor. It represents a means-testing of the program, a strong disincentive to save for retirement and, over the long-term, could seriously undermine the support for the system among moderate- and higher-paid workers who will lose 10-25 percent of their benefits under this proposal.

The cost-of-living adjustment (COLA) cut recommended by the Commission is not a temporary, one-time delay—it is a permanent cut. Congress must acknowledge that fact as well as the fact that the oldest and lowest-income segments of the elderly population will bear the brunt of any COLA cut.

In an attempt to provide a more complete solution for both short- and long-term problems, AARP is recommending to this Committee constructive alternatives that not only will provide the additional funds to close the system's financing gaps, but also are more fair and balanced in their treatment of workers and retirees.

PAYROLL TAX INCREASES

Over the 1983-89 period, the Commission is recommending an increase in payroll taxes of $40 billion for workers and their employers (providing a refundable income tax credit to the worker in 1984 only) and $18 billion for self-employed individuals by making the OASDI tax rates for these individuals equal to the combined employee-employer rate. (This would be accompanied by an income tax deduction as a business expense for one-half the combined rate.)

Impact: Under this proposal, for the average worker earning $19,000 in 1983, payroll taxes will be increased by approximately $263 (excluding a $62 income tax credit payable to this worker in 1984) over the 1983-90 period. This calculation assumes average annual wage growth of 6.5 percent and excludes any tax increase that will occur solely as a result of such wage growth. This increase is on top of the $840 in increased payroll taxes this worker will be paying as a result of previously scheduled payroll tax increases. This would bring the total 1983-90 increase in payroll taxes for this worker to $1,100, an increase of over 8.3 percent in payroll tax liability.

For the self-employed individual, this increased payroll tax levy is very substantial. Even considering the offsetting effect of the proposed income tax deduction, this proposal will mean a net tax increase of approximately $400-$700 per year (depending upon adjusted gross income levels) for the average self-employed person.

Analysis: Our Association believes raising payroll taxes is the worst source of additional revenue for social security. Our alternative is to raise revenue from non-payroll tax sources and earmark them on a temporary basis for social security. These proposals are described in detail in a later section of our statement.

Payroll tax increases represent bad economic policy, bad tax policy and are extremely burdensome for workers. They represent bad economic policy since such increases tend to add to inflation and unemployment and will make recovery from the current recession even more difficult. On the inflation side, payroll tax increases create upward pressure on prices as employers try to push their large increase in costs forward in the form of higher prices. On the unemployment side, payroll tax increases raise the cost of hiring and retaining workers—particularly youth, minorities and semi-skilled workers for whom unemployment rates are now in the 20-50 percent range. Payroll tax increases will dampen employment levels, making unemployment an even more intractable problem and further reducing income to the social security trust funds.

In analyzing the impact of the 1977-82 payroll tax increases (which were smaller than the increases now under consideration), CBO estimated that by 1982, the 1977 tax hike would have depressed job levels by one-half million and would have added 0.5 percent to the inflation rate.

Raising payroll taxes in our opinion also represents bad tax policy, since it would greatly increase government's reliance on a relatively regressive form of taxation which bears down most heavily on low-income workers, particularly families. A recent SSA study concluded that over half (51 percent) of all family units now pay more in social security taxes than they do in income taxes (assuming that the worker bears both the employee and employer portion of the tax). For low-income family units with total incomes under $9,000, almost two-thirds (65 percent) pay more in social security taxes than income taxes.

Even if these payroll tax increases are partially offset by an income tax credit or income tax deduction (for the self-employed), the net effect will be to raise revenue derived from a regressive source while cutting revenue derived from a progressive source. We seriously question the advisability of providing any additional income tax cuts or preferences. In the wake of one of the largest income tax cuts in recent history and in the face of some of the largest budget deficits in history, we should be seeking to restore the income tax base, not erode it.

Raising payroll taxes at this time is also dangerous for the social security system and its beneficiaries since it could foster a split between the young and old. Payroll tax increases are highly visible on pay stubs and could increase younger workers' dissatisfaction with the system since they will substantially decrease workers' take home pay at a time that high unemployment is already reducing their real incomes.

TAXATION OF SOCIAL SECURITY BENEFITS

Under current regulations, social security benefits (as well as railroad retirement benefits) are excluded from gross income for federal income tax purposes. The Commission proposal would require that one-half of social security benefits be included in adjusted gross income for federal income tax purposes, if a taxpayer has an income (excluding social security) above $20,000 for an individual or $25,000 for a married couple. The revenue from this provision would be credited to the social security cash-benefit trust fund.

Over the 1983-89 period, this provision is supposed to raise $30 billion in revenue and is expected to add enough revenue to reduce the long-term deficit (estimated at 1.8 percent taxable payroll) by 0.6 percent.

Impact on Current Beneficiaries: If effective in tax year 1984 about 10-11 percent of social security recipients would be affected. Their extra tax liabilities and social security benefit losses would be as follows:

	Extra tax liability [1] (percent benefit loss)			
	$5,000 social security	Percent	$6,000 social security	Percent
Single AGI:				
$20,000	$644	12.9	$774	12.9
$25,000	730	14.6	880	14.6
$30,000	818	16.4	988	16.4

	Extra tax liability [1] (percent benefit loss)			
	$8,400 social security	Percent	$13,000 social security	Percent
Married AGI:				
$25,000	$942	11.2	$1,517	11.7
$30,000	1,059	12.6	1,703	13.1
$35,000	1,176	14.0	1,935	14.9
$40,000	1,386	16.5	2,145	16.5

[1] Assuming no itemized deductions, 1984 tax rates. Income tax liabilities under many state laws may also increase proportionally.

Analysis: For current retirees and the approaching retirement, this proposal represents an abrupt reduction of 11-25 percent in social security income and an unfair change in the rules of the game. Even at income levels of $25,000 and above, such a precipitous loss in income can mean a severe disruption in retirement planning for many. Most social security recipients will have virtually no means to offset such a loss since they have very limited or usually no access to the labor market.

Additionally, in the future, the $20-25,000 thresholds could easily be lowered (as has already been done with unemployment compensation) thus subjecting lower and moderate income beneficiaries to the tax. Once the precedent of taxing benefits is set, the elderly will feel that no one's benefit is safe, especially if the Commission's proposals fail to meet the system's short-term financing needs. And, even if the thresholds remain the same, inflation will effectively reduce them. In fact, by 1990 using the inflation assumptions underlying the Commission's proposals, these thresholds would be reduced to $13,660 for an individual and $17,076 for a couple in today's dollar terms.

There are also serious technical problems with the current proposal. The most major is a notch problem affecting taxpayers whose AGIs just slightly exceed the thresholds. Taxpayers in this situation could find their tax liabilities 25-30% higher (36-58 percent for married couples) than taxpayers with income just below the thresholds. As illustrated in the example on the next page, a person with an AGI of $19,000 (just below the threshold) would have a far higher disposable income than a person with just $100 more in income, but who has an AGI at the threshold of $20,000.

	Amount
Person X over age 65 with $19,900 AGI:	
Tax liability	$2,668
Disposable income	22,232
Person Y over age 65 with $20,000 AGI:	
Current tax liability	2,691
Disposable income	22,309
Tax liability including ½ of Social Security	3,335
Disposable income	21,665

(Assumes $5,000 of social security income, no itemized deductions and 1984 tax rates.)

Person X with $19,9000 AGI would have $567 more income at his disposal than Person Y with $20,000 AGI.

Correction of this notch problem by the tax-writing committees will mean that either beneficiaries with AGI's below the current thresholds (possibly as low as $14-15,000) would be affected or the expected revenue of $30 billion would be substantially reduced, perhaps even cut in half.

Impact on Younger Workers: Younger workers have even more at stake under the Commission proposal because in the future, virtually all Social Security recipients (except those who are relatively poor) will have 5-25 percent of their social security benefits recaptured via the income tax system. This will occur because under this plan the $20-25,000 thresholds are not indexed. This is why this proposal contributes so much to ameliorating the long-term term deficit. In fact, the proposal to tax one-half of social security benefits only for persons with AGIs above $20-25,000 generates the same amount of revenue over the long-term (0.6 percent of taxable payroll) as the same proposal without thresholds (See January 1983 Report of National Commission on Social Security Reform, Appendix K, page 50).

Under current tax law, aged taxpayers pay no income taxes until their AGIs (excluding social security) exceed $4,300 for an individual and $7,400 for a married couple. Within 25-30 years, the $4,300 "minimum" taxable threshold will meet the $20,000 threshold and the $7,400 "minimum" taxable threshold will meet the $25,000 threshold contained in the Commission's proposal. These estimates assume the short-term inflation rates underlying the Commission's package and the long-term (1990+) inflation rates contained in the II-B assumptions of the 1982 Social Security Trustees Report.

Therefore, in 25 to 30 years, the thresholds in the Commission's taxation of benefits proposal will be inoperative. The proposal will affect the future social security beneficiary population in almost the same manner that it would affect the current social security beneficiary population assuming there are no protective thresholds at all. The following table illustrates the impact on current beneficiaries of the Commission's proposal assuming no thresholds.

SIMULATED IMPACT ON CURRENT BENEFICIARIES (WITH NO THRESHOLDS)

	Extra tax liability[1] (percent benefit loss)	
	Assuming $5,000 social security	Percent
Single AGI:		
$4,300	$297	5.9
$10,000	395	7.9
$15,000	515	10.3

	Extra tax liability [1] (percent benefit loss)	
	Assuming $8,400 social security	Percent
Married AGI:		
$7,400	$483	5.7
$15,000	654	7.8
$20,000	756	9.0

[1] Assuming no itemized deuctions, 1984 tax rates.

The Commission's proposal as currently drafted would affect 10–11 percent of current beneficiaries. However, in the future given erosion of the thresholds, at least half of the beneficiaries population would be affected and perhaps even more since retirees of the future are likely to enter retirement with more income from savings such as private pensions, IRA's and the like. In fact, a worker age 35 today who establishes an IRA this year and continues to pay into it at the maximum can expect to draw from that IRA alone an annual income of $20,000 when he or she retires.

It is ironic that those who save for their retirement will be penalized the most by the Commission's proposal. Taxing social security benefits thus discourages saving and encourages reliance on social security as the sole source of income. It also represents an income-testing of the program which is a fundamental change in the system and one that will turn it, in effect, into an overt welfare program. This outcome is contrary to the Commission's own statement: "The National Commission considered, but rejected proposals to . . . change it to a program under which benefits are conditioned on the showing of financial need." (Report of the National Commission on Social Security Reform, January 1983, p. 2-2.)

It is often argued that social security should be taxed in the same manner as private pensions and government employee pensions. Social security, however, is not structured like these pension systems which usually provide annuity-type benefits awarded through a proportional benefit structure. In contrast, social security is a social insurance with significant welfare/social adequacy components such as its weighted benefit formula and the provision of "free" dependent benefits.

One cannot analyze this benefit taxation proposal in isolation of the heavily weighted social security benefit structure. Even the 1979 social security Advisory Council when it recommended taxing Social Security benefits suggested that it be coupled with the adoption of a revised two-bracket benefit formula that would treat higher-paid workers more fairly and give them more reasonable rates of return on their payroll tax contributions (see Report of the 1979 Advisory Council of Social Security, p. 76). Already under the current schedule of payroll tax rates and using conservative estimates, as of the year 2000 a single male earning the taxable maximum retiring at age 65 will not receive his "money's worth" out of social security—that is, the present value of his future benefits is less then the present value of the OASI taxes he and his employer will pay plus a reasonable rate of interest (see Memorandum to Members of the National Commission on Social Security Reform from its Executive Director Robert Myers, August 12, 1982). The same is true beginning in 2020 for single women earning at the maximum and retiring at age 65.

The proposal to tax social security benefits will lower rates of return for this high-earning group even further and make their already negative rates of return worse. If the Commission's proposal to tax benefits is enacted, the popular "myth" among younger workers that social security is a bad deal will become reality. At some point, one can expect that these middle and higher-income workers—who may be a growing part of the labor force—will increasingly view social security as a bad buy and be less inclined to want to support the system. This could work to the particular detriment of future lower-income beneficiaries who will be heavily dependent on social security for minimum income support.

Given that this package also imposes large payroll tax increases on workers, the message to younger workers is: pay more now and get less when you retire. And, to increasing numbers of retirees in the future, this proposal says: don't plan to get out of the system what you put into it. This combination of policies is likely to cause a decline in younger workers' support for the program and that could precipitate an inter-generational conflict in the future.

CUTS IN COST-OF-LIVING ADJUSTMENTS

The Commission proposes $40 billion in savings from a six-month freeze in COLA's effective in 1983, followed by a permanent six-month delay in payment of the COLA for every year thereafter. In July 1983, unlike current law, no COLA will be paid; instead, in January 1984, a COLA will be paid reflecting the inflation occurring between the first quarter of 1982 and the first quarter of 1983. This means that beneficiaries will have to wait a full year until 1984 to be compensated for the inflation they experienced in 1982. The next COLA will be paid in January 1985, reflecting the inflation occurring between the third quarter of 1983 and the third quarter of 1984. This particular shift in the measuring period will have the effect of dropping six months of inflation out of the COLA calculation—that is, the inflation occurring between the first and third quarters of 1983.

Impact on Beneficiaries: In 1983 alone, this six-month freeze will mean a benefit loss of approximately $132 for the average retiree and a loss of $222 for the average couple. Over the period 1983-89, as a result of the repetitive delay, the retiree would lose nearly $1,100, while the couple would lose $1,800. (These calculations assume average monthly benefit amounts of $416 for a single person ($700 for a couple) and an average annual inflation rate of 5.3 percent over the 1983-89 period.) Thus, this COLA freeze and delay is not a one-time, temporary cut, but one that is permanent, causing a loss in each year it is in effect.

For the roughly 4 million older persons already living in poverty with annual income of less than $4,500-$5,700, cuts in social security COLAs will be brutal. For the 3 million elderly hoving just above poverty, social security COLA cuts will push them below this threshold—dramatically increasing elderly poverty rates which are already the highest of any adult age group.

The unfortunate effect of any "across-the-board" social security cut, like a COLA cut, will be to disproportionately hurt the oldest and lowest-income segments of the aged population because they depend on social security for the bulk of their total income. According to Census Bureau statistics, single elderly persons age 65+ with incomes below $4,400 (approximately the 1981 poverty threshold) depend on social security for roughly 85-95 percent of their total income; elderly persons age 62+ in a family unit with incomes below $5,500 (the 1981 poverty threshold for couples) similarly depend on social security for 80-85 percent of their total income. The more heavily dependent on social security a person is, the more onerous a cut in social security is for them.

Poverty among elderly persons living alone (especially women, many of whom are widows) is extremely high and has risen over the last three years. In 1981, the poverty rate for all persons age 65+ was 15.3 percent—the highest poverty rate for any adult age group. This "average" poverty rate compares to poverty rates among the single aged social security population of:

27.6 percent for single women 65-71.
31.7 percent for single women 72+.
26.9 percent for single men 65-71.
20.1 percent for single men 72+.

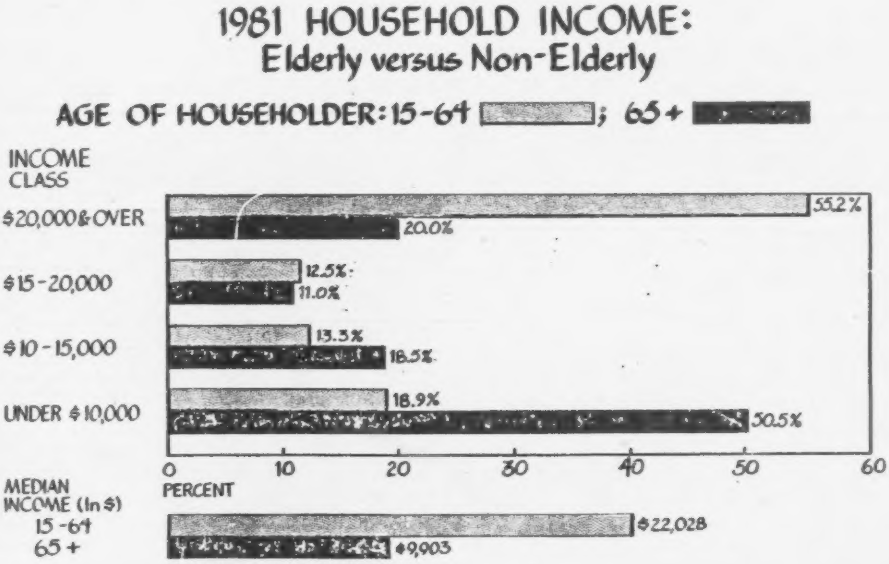
So many of the elderly are clustered just above the poverty threshold that relatively small drops in social security income will cause poverty rates to escalate dramatically. Among single social security recipients age 62+, 17 percent of them or over 1.4 million persons had incomes in 1981 between $4,400 and $5,500, within $1,000 of official proverty. Among families headed by a person 62+, 16.5 percent or about 1.7 million persons had incomes within $3,500 of the official proverty line. Thus, in 1981, over 3 million social security recipients, while not officially defined as "poor" had incomes low enough to put them at risk of becoming officially poor should substantial cuts in social security be legislated.

In addition to the elderly's high poverty rates, Census statistics show them to be heavily concentrated in the lower reaches of the income distribution, especially compared to the non-elderly. Over one-half have total incomes below $10,000 and relatively few are in the upper income reaches. The median income for elderly-headed households was $9,903, which is less than one-half the median income of non-elderly households ($22,028). These statistics and trends are illustrated by tables that follow.

TOTAL 1981 MONEY INCOME OF HOUSEHOLDS BY AGE OF HOUSEHOLDER

Income class	Age of householder	
	15-64 (percent)	65 plus (percent)
Under $5,000	7.8	20.8
$5,000–$9,999	11.1	29.7
$10,000–$14,999	13.3	18.5
$15,000–$19,999	12.6	11.0
$20,000 and over	55.2	20.0
Median inocme	$22,028	$9,903

Source: Bureau of the Census. Money inocme and poverty status of families and persons in the United States: 1981.



SOURCE: CENSUS BUREAU

Given the elderly's vulnerable eonomic situation and the heavy dependence on social security for the bulk of income support (especially among the oldest and the poorest), any substantial COLA cuts could throw millions of them into poverty and lead to a severe deterioration in their overall standard of living. Based on a 1982 study done for AARP by Data Resources Inc. (DRI), social security COLA cuts proposed last year (i.e., a one-year freeze followed by CPI-3 percent thereafter), would have thrown an additional 1.2 million elderly into poverty by 1985 and 2.1 million by 1990. (Copies of study available upon request.)

SSI Offset: The Commission proposes to increase SSI's $20 "unearned" income disregard to $50 beginning in June 1983, in an attempt to insulate the SSI population from the six-month COLA freeze.

First, this SSI proposal is not an adequate response to the drop in income that will occur for low-income social security beneficiaries. Unfortunately the SSI program reaches only 1.4 million elderly poor, while there are already 4 million elderly living below the poverty threshold and another 3 milion hovering just above poverty line.

Second, a significant protion (approximately one-third) of the SSI population has no "unearned" income; they are nearly totally reliant on the SSI program for income. These recipients would receive no protection from the cut entailed with the SSI six-month COLA freeze/delay.

In order to provide more thorough protection for the low-income population, AARP recommends an expansion of the SSI program by: (1) increasing the SSI pay-

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ment guarantee to at least 125 percent of poverty (currently SSI payment guarantees are equal to 72 percent of poverty for singles and 86 percent of poverty for couples); (2) eliminating the assets test; (3) increasing the unearned income disregard; and (4) eliminating the one-third reduction for persons living in the household of another.

Significant costs will probably be involved with these reforms. Therefore, we suggest that these costs be covered by some of the short-term revenue raising devices we recommend later in this statement.

AUTOMATIC STABILIZER: LOWER OF WAGES OR PRICES

The Commission proposes that beginning in 1988, if OASDI trust ratios dip below 20 percent, an automatic COLA cut (equal to the lesser of wages or prices) would be triggered. When and if the trust funds reach 32 percent, then a pay-back mechanism will be triggered.

This stabilizer is certain to be triggered for three reasons:

(1) The entire Commission package is likely to raise an insufficient amount of money (in fact, only a 22 percent reserve ratio is expected in 1988 under Commission assumptions);

(2) The economic assumptions underlying the package are optimistic—in 1988, 7 percent unemployment, 5.3 percent inflation and 3.5 percent real GNP growth rates are expected; and

(3) In determining whether the OASDI trust fund ratio has declined below 20 percent, the trust funds must be reduced by any outstanding loan (including interest) from the Hospital Insurance (HI) trust fund (OASDI has already borrowed $12.4 billion from HI amd may borrow more if interfund borrowing is extended).

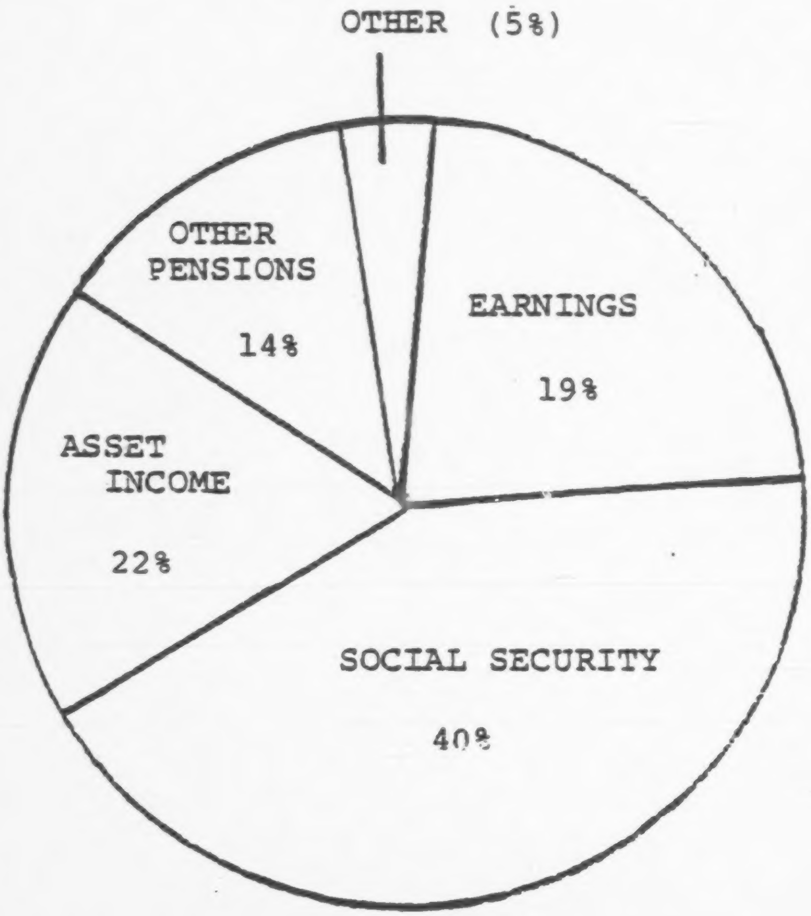
However, even if this "automatic stabilizer" is triggered, it may fail to financial stabilize the system. The rationale behind this stabilizer assumes that in the future the system's financing will be suffering mainly from high inflation (and high costs)—when in fact sluggish growth and high unemployment may cause the system to lose on the revenue side. Under an economic scenario of flow inflation and high unemployment, this "automatic stabilizer" could not yield the COLA savings necessary to stabilize the system. It is far more appropriate and rational under a lower inflation/high unemployment scenario to use an automatic stabilizer that will trigger more revenue for the system, not benefit reductions.

Impact on Beneficiaries; If we experience a resurgence of inflation, then this stabilizer could destroy the inflation protection for both current and future retirees by severely reducing real benefit levels. Some attempt to justify this proposal on the grounds that social security needs to be made financially "self-adjusting" and "self-stablizing." Hiding behind that rationale is a proposal that would make the system more financially stable at the financial expense of beneficiaries. The proposed mechanism would transfer the full financial risk of economic problems—specifically, high inflation and low or negative real wage growth—from government and the social security system directly to recipients who, relative to other groups in society, are least able to bear that risk.

It is often argued that social security recipients have been doing a lot better than the working population since, in some recent years, price increases (and COLA's) have outpaced price increases. Some proponents of the wage cap proposal seem to thus be advocating it on the grounds of equity—in other words, it is inequitable to allow the incomes of retires to rise more rapidly than the income or wages of workers who must support government programs through taxes.

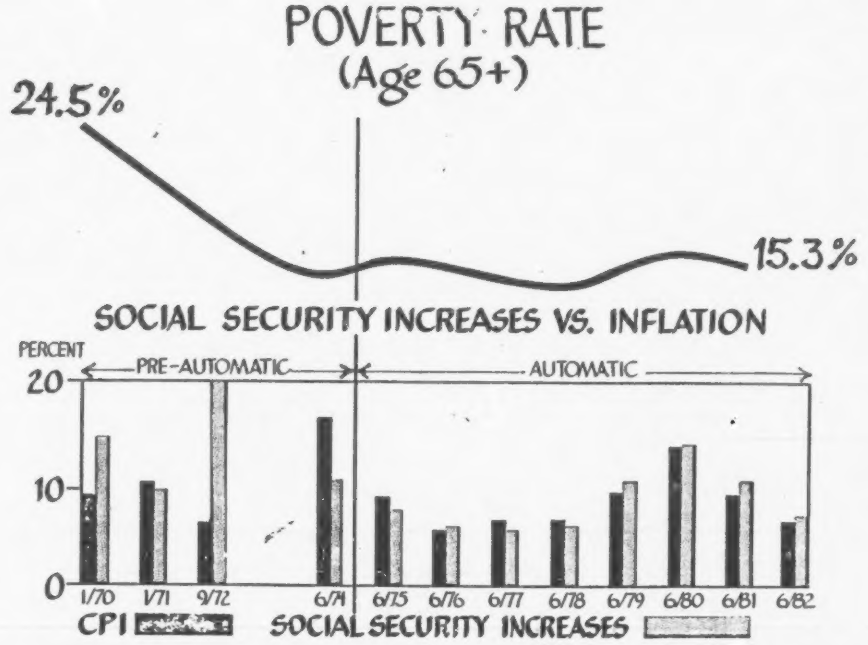
First, it must be pointed out that wages usually represented the bulk of worker's incomes. Therefore, any wage increase received tends to protect most of a worker's income—an income which tends to be double that of the average social security income. In contrast, social security does not represent the elderly's total income. In fact, in 1980, social security accounted for only 40 percent of the elderly's total income. Income from pensions and other assets (for which little or no automatic inflation protection is available) represented 36 percent of their total income. (See following chart) Thus, full cost-of-living adjustments maintained the real value of less than half of most retirees' income. And for the low-income elderly population (with total incomes of $5,000 or less), social security represents 80 percent or more of their income. It simply cannot be alleged that full social security cost-of-living increases are allowing all retirees' total incomes to rise more rapidly than the incomes of workers. This is only true for the lowest-income segments of the aged population who need inflation protection the most.

Shares of Income Sources for the Age 65+ Population



Second, it must be pointed out that wage increases have historically exceeded price increases and this trend is expected to resume in the near term. Unless Congress is willing to adjust benefits according to the rise in wages on a permanent basis even when wages begin to out-pace prices in the future, then the wage indexing cannot be sold on the grounds of equity. Beneficiaries will feel—and rightfully so—that they will always be getting the "short end of the stick." The overall rationale for cost-of-living adjustment mechanisms must be consistent. These mechanisms are not for the purpose of passing along to current retirees increases or decreases in the standards of living of current workers, but rather for the purpose of maintaining benefit purchasing power.

It has also been pointed out that since 1970, while prices rose 149 percent and average weekly earnings rose only 121 percent, social security benefits rose 205 percent. The obvious implication is that not only have the aged beaten inflation since 1970, but also the improvement in their living standards has greatly exceeded that of working people. It was not pointed out, however, that in 1968 the poverty rate among the aged was over 25 percent and among aged recipients of Social Security was 44 percent. Congress intentionally and properly acted to help alleviate this national disgrace by increasing social security benefits in 1972 by an amount well in excess of the inflation rate. In the intervening decade, since 1974-75, Congress has provided cost-of-living increases that by and large served only to maintain the purchasing power of social security benefits. The poverty rate trends compared to social security increases are illustrated on the following page.



Workers have reasonable expectations over their future working lives of making up any real income loss they are currently suffering as a result of high inflation or unemployment. Retirees, because they are not wage-earners and have many fixed components they are not wage-earners and have many fixed components to their income, have not expectations for recouping the inflation losses they have already incurred and would incur under a wage cap COLA proposal.

In addition, this automatic stabilizer has the serious potential for destabilizing future workers' replacement rates (i.e., the degree to which social security replaces a worker's pre-retirement earnings). This could occur with respect to workers retiring in the future at age 65, since the Primary Insurance Amounts (PIA's) of these workers are determined at age 62+ and then are kept up-to-date (between their 62nd and 65th birthdays) by the COLA provided in each of these three years. Workers retiring in a recessionary period (when wages lag behind prices) would find their real lifetime benefits reduced, especially when compared to another cohort of workers retiring during a period of robust wage growth. For example, with this automatic stabilizer in effect, and economic experience similar to 1978–81 would have lowered replacement rates by as much as 8 percent for certain retirees. (See Congressional Budget Office, Financing Social Security: Issues and Options for the Long Run, November 1982, p. 52)

Similarly, these types of technical problems can arise with the "catch-up" provision suggested by the Commission. When this proposal is examined closely, one finds that once a benefit loss is incurred, the "catch-up" provision may not begin to restore the loss until several years later. Since the restoration process could easily span a decade, many older persons who would have suffered the benefit loss will die, while many persons who did *not* suffer the benefit loss will reap the rewards of the restoration. According to 1977 statistics, approximately one million retired social security recipients leave the social security rolls per year and 1.6 million are new entrants.

In addition, a lower of wages or prices COLA mechanism is likely to be out of sync with the needs of beneficiaries, because it would reduce COLAs most steeply when inflation rates are high—which is the very time when beneficiaries are most in need of full inflation protection. Similarly, any "catch-up" would likely occure during periods of low inflation when such compensation is least needed. In addition, if low or negative real wage differentials continue over a period of years, then the proposal would inevitably ratchet down real benefit levels year after year to a point where it would be extremely unlikely that they could ever be built back up again by the proposed "catch-up" mechanism.

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INTERFUND BORROWING

Over the past year, the OASI fund has been permitted to borrow funds from the DI and HI funds. This borrowing authority is to become inoperative by June 1983. The Commission suggests, however, that OASDI be permitted to borrow from the HI fund through 1987.

This provision could be financially disastrous for Medicare. OASI has already borrowed $12.4 billion from HI, and no schedule of repayment of these loans has been recommended. Without any additional borrowing, depletion of the HI trust fund is expected in 1989–90. If interfund borrowing is extended, HI's depletion could occure several years sooner and easily prompt massive cutbacks in or even a mean-testing of Medicare. Neither Congress nor the Administration at this time is prepared to grapple with Medicare's cost problems in the comprehensive, fundamental manner necessary.

UNIVERSAL COVERAGE

Over the past few years various proposals have been advanced to mandate social security coverage in one form or another for public-employee groups, as a means for generating additonal short-term revenue. The Commission's recommendation is to mandate coverage for newly-hired federal employees and to ban any further withdrawals of state and local government employee groups.

As a matter of principle, AARP believes that employee groups, which are not presently covered by social security, should not be forced into the system against their will, especially in the obviously unfair manner contemplated by most proposals. It is not surprising that the employee groups affected react so negatively to such coverage proposals, since these proposals are always made in the context of a financial "rescue" for social security. Adding to this anxiety, most coverage proposals, including the Commission's, lack the necessary safeguards to guarantee benefits for current retirees and workers and omit details regarding the proper coordination between social security and newly-created, supplementary public systems.

"UNFUNDED" GENERAL REVENUES IN THE COMMISSION'S PACKAGE

As presently drafted, the Commission's recommendations entail the use of substantial amounts (nearly $70 billion over the 1983–89 period) of general revenue either by a direct infusion of general funds into the trust funds or by requiring the expenditure of general funds through an offsettting income tax cut or offsetting improvement in a general revenue financed program (i.e., SSI).

Most of the revenue (nearly $40 billion out of the $70 billion) will require a draw on existing general funds since no specific mechanism (except taxation of benefits) is suggested by the Commission for the purpose of raising the newly required general funds. Listed below are estimates of the amounts of general revenue contained in the Commission package:

1983–89 general revenue amounts

Commission provision:	*(billion)*
1. Taxation of one-half of social security benefits (direct infusion into OASDI trust funds; however, revenue is raised by specific tax mechanism)	$30.0
2. Credit OASDI trust funds for military wage credits and unnegotiated checks	18.0
3. Refundable employee income tax credit payable in 1984 for OASDI tax rate increase	4.5
4. Reduction in income taxes of self-employed resulting from deduction of one-half of their OASDI taxes as a business expense	12.0
5. Increase in SSI unearned income disregard from $20 to $50 a month	5.3
Total	69.8

Analysis: As described in the following section, the "unfunded" general revenues contained in this package should be specifically raised through appropriate tax mechanisms to avoid drawing on existing general funds and thereby making the general budget deficit problem that much more difficult to deal with.

AARP ALTERNATIVES: SHORT-TERM FINANCING

AARP proposes that—instead of relying heavily upon COLA cuts, taxing benefits or payroll tax hikes—revenue should be temporarily raised from other more broadly based tax sources which would not unfairly burden workers or older Americans nor dampen chances for economic recovery. These revenues could be temporarily earmarked for the social security trust funds. Such revenues could come from a variety of options, as described below.

Estimated fiscal year 1983-87 revenue yield

Option:	*Billions*
Reduce 1983 rate cut to 5 percent	$88
Modify deductibility of interest on consumer credit [1]	20
Impose a windfall profits tax on natural gas following decontrol [2]	20
Double excise tax on liquor [2]	18
Double excise tax on beer and wine [2]	7
Maintain excise tax on cigarettes (1986–87) [1]	4
Modify treatment of employer-paid health insurance premiums [1]	26
Repeal certain oil and gas industry tax preferences [1]	40
Total	223

[1] CBO, Reducing the Federal Deficit: Strategies and Options, February 1982.

[2] Senate Budget Committee: Tax Expenditures, March 1982.

While this table does not cover all available options, it can be used as a starting point for the consideration of non-payroll tax sources of revenue for social security. Detailed descriptions of each option follow.

1. Reduce 1983 rate cut to 5 percent.—This change alone would raise $88 billion over five years for the social security system. This option could be redesigned in a number of ways depending upon the needs of the economy and of the social security trust funds. Rather than reducing the rate cuts, a surcharge could be placed on the income tax. Also, the full ten percent rate cut could be postponed, with the revenue gain going to social security. As another alternative the rate cut could be modified according to income class.

2. Modify deductibility of interest on consumer credit.—Currently interest paid for consumer credit (such as on a credit card payment) is fully deductible. Figures show that the benefit of this provision is heavily weighted toward upper income taxpayers. This provision could be reworked to target benefits more effectively and to raise revenue. A total elimination of this tax expenditure would raise nearly $44 billion over the next five years.

3. Impose a windfall profits tax on natural gas following decontrol.—This tax would be imposed following decontrol on January 1, 1985.

4. Double excise tax on liquor.—This proposal would raise a tax which was last increased in 1951.

5. Double excise tax on beer and wine.—This tax also was last raised in 1951.

6. Maintain excise tax on cigarettes (1986–87).—The Tax Equity and Fiscal Responsibility Act of 1982 raised the cigarette tax from 8 to 16 cents a pack for fiscal years 1983–85. After fiscal year 1985, the tax would revert back to 8 cents a pack. This proposal would keep the tax at 16 cents.

7. Modify treatment of employer-paid health insurance premiums.—Currently health insurance premiums and medical care expenses paid by the employer can be deducted by the employer and are not considered income to the employee. In addition to causing a large revenue loss (more than $100 billion over the next five years) it has been argued that this provision helps to drive up the cost of medical care.

8. Repeal certain oil and gas industry tax preferences.—One such preference, the percentage depletion allowance, is a write-off of 18 percent (in 1982) of the gross income (up to a limit) from select oil and gas wells. This method often allows the well owner to recover much more than the cost of extraction. Another provision, expensing for intangible oil and drilling costs, would allow certain costs to be written off in the year they occurred rather than adopting the general approach of depreciating these costs over a period of years. Given the major restructuring of the corporate income tax that Congress enacted in 1981, these preferences should be carefully reviewed.

AARP ALTERNATIVES: LONG-TERM FINANCING

Social security's long-term deficit is practically ignored by the Commission's recommendations. The package is void of any rational, structural reforms that are responsive to the serious demographic trends with which the system must cope.

AARP is convinced that social security faces a long-term deficit of serious proportions. Public recognition of this long-term deficit is increasing as reflected in public opinion polls. To help restore younger workers' confidence in the system, we urge the Congress to address the system's long-term problems by aggressively encouraging and rewarding increased work effort on the part of future older persons.

Some social security policy analysts have argued that there is no need to recommend long-term changes in social security since, after 1990, the OASDI programs are expected to build up large surpluses and to be financially healthy until well into the next century. These analyses also maintain that many positive factors—economic growth, favorable demographics, increased immigration—could wipe away the long-term deficit. We believe it is unwise to rely on huge surpluses developing after 1990, since adverse economic conditions, like those we are now experiencing, could easily erase those projected surpluses and make the projected long-term deficit worse.

WORK PROMOTION STRATEGY

In order to allay younger workers' fears and deal with a long-term deficit that is very likely to materialize, our Association favors a long-term solution—an aggressive work-promotion strategy for future older persons. The components of our strategy include:

An actuarially-based delayed retirement credit of 8–10 percent (rather than the current 3 percent for each year a person continues to work and elects to delay applying for benefits after reaching age 65;

An increase in the early retirement penalty from current 20 percent to 30 percent (to be phased in over 5–10 years);

Increased access to social security disability and SSI benefits for workers aged 62–65 who suffer from chronic health impairments; and

A phaseout of the earnings limitation for persons age 65+, while retaining it for those under age 65.

The main components of this work promotion strategy, however, must be legislated now to be phased in in the not-too-distant future so that its potential effectiveness on the work patterns of older persons can be tested.

In order to achieve a voluntary delay of retirement decisions, social security must provide stronger work incentives than it does today. To this end, the Association recommends three changes. First, the delayed retirement credit (available to persons who elect to delay retirement past age 65) should be substantially increased. Under present law, workers receive a small 3% bonus for each full year they delay filing for benefits. By increasing the delayed retirement credit to the actuarially fair level of 8 to 10%, the credit would provide more adequate compensation for continued work and therefore provide a stronger incentive for persons to remain working full-time and delay filing for benefits. Congress should not wait until 2010, as recommended by the Commission, to have this change fully phased-in.

Second, in order to provide a stronger incentive to keep working (and a stronger disincentive to retire early) in the case of able-bodied workers between the ages of 62 and 65, the disincentive for early retirement applied at age 62 should be gradually increased from its present level of 20 percent to 30 percent. With this change, older workers would receive at 10 percent increase in their benefit amounts for every year between age 62 and 65 they postpone filing for benefits. This 10 percent benefit increase is larger than the 6.6 percent increase provided by current law and should, therefore, act as a stronger financial incentive for willing and able older persons in this age group to remain employed through or beyond age 65. As it is today, two out of every three retired worker beneficiaries begin receiving benefits before age 65. This is a trend that will be insupportable in the future.

Any increase in the early retirement disincentive, however, must be accompanied by expansion of the DI and SSI programs so that older workers age 62–64 who are chronically disabled or involuntarily unemployed have reasonable benefit options available to them. Under current disability provisions, the consideration of non-medical factors (age, education, vocational problems, reemployment prospects) in awarding DI benefits is particularly crucial for older workers in gaining access to the program. Therefore, non-medical factors should continue to be considered in determining disability and their application should be liberalized in the future.

As a third component of this work promotion strategy, the Association supports elimination of the earnings limit for persons age 65+. The limit has acted as the major work disincentive for the elderly and its elimination must be a key element of any attempt to change social security so that it encourages increased work effort.

We understand that concern exists about the "cost" of such a reform. However, we would point out that having a factor in social security that causes people to limit their work effort imposes a significant "cost" on society. We are convinced that the economic "cost" in terms of lost production and lost tax receipts that results from having the earnings limitation is greater than the "cost" of the additional social security outlays that repeal would entail.

An important article on the subject of cost was published in the September 1979 "Social Security Bulletin." It is entitled, "Tax Impact for Elimination of the Retirement Test, and is authored by Josephine G. Gordon and Robert N. Schoeplien of the Office of Research and Statistics, SSA. This study concluded that elimination of the retirement test for workers age 65-69 would generate as additional $678 million in payroll taxes and an extra $997.8 million in federal individual income taxes. This additional revenue, when combined ($1.656 billion), would offset 79 percent of the $2.1 billion SSA had estimated at that time it would cost to repeal the test. In addition, it has been estimated by SSA that it costs more than $68 million per year to administer the test due to the complicated forms and periodic reporting that it necessitates.

Some analysts argue that higher income persons would exclusively reap the benefits of eliminating the earnings limit. These analyses ignore the fact that over half of workers age 65+ hold their earnings below the earnings limit and they would also benefit from repeal of the limit. Their benefit would be in the form of the higher wages which they could earn, not in the form of higher social security benefits. SSA statistics reflected in the following table indicate that in 1977, 51 percent of male workers age 65-71 kept their earnings below $3,000 (the earnings limit in effect at that time).

TABLE 1.—NUMBER AND PERCENTAGE DISTRIBUTION OF WORKERS WITH TAXABLE EARNINGS, BY AMOUNT OF EARNINGS AND SEX, 1977

Amount of earnings	Men 65 to 71	Women 65 to 71
Total number	1,461,000	897,000
Total percent	100	100
Less than $3,000	51	63
$3,000 to $6,993	18	20
$7,000 to $14,999	17	14
$15,000 or more	14	3

Source: Continuous Work History Sample, SSA Office of Research and Statistics, 1977.

In addition to this social security work strategy, other complementary changes are needed. All mandatory retirement practices must be prohibited. Tax policies to encourage businesses to hire older workers should be formulated. The federal government should actively encourage alternative work programs (job-sharing, phased retirement, part-time jobs, etc.) and sponsor job opportunity, placement and retraining programs specifically targeted on older workers.

We are hopeful that the combined effect of this three-pronged package of social security work incentives would be to make the voluntary postponement of the decision to retire much more attractive for those older persons who are capable of continuing to work. In the process, they would be contributing to their own financial well-being, as well as the financial well-being of social security and other government programs through the increased payroll and income taxes they would be paying. Some of these increased taxes could go toward supporting those older persons who are less able or unable to continue to work.

We are recommending our work promotion strategy as an alternative to the age 68 proposal. The age 68 plan should be avoided because it would unfairly penalize disadvantaged older workers who become involuntarily unemployed or who are physically unable to keep working. Supporters of the age 68 proposal argue that because older persons are living longer, they will be able to work longer. Health statistics indicate a contrary trend; in 1980, higher proportions of men age 60-69 reported being unable to work due to chronic health problems than in 1970. (See Jacob Feldman, statement before the National Commission on Social Security Reform, June 21, 1982).

Despite the fact that life expectancy rates have been increasing, many of the elderly, particularly women and minority groups, still find it necessary to "take early retirement" due to unemployment and health problems. Furthermore, evidence exists to demonstrate that those working at physically demanding jobs tend to have shorter life expectancies. A recent study also found the men accepting benefits before age 65 had higher mortality rates. (See Congressional Budget Office, "Financing Social Security," 1982.)

These trends indicate that the age 68 proposal runs the grave risk of substantially cutting social security benefits for a large, vulnerable segment of the future elderly population, thereby greatly increasing the likelihood of their living in poverty. Moreover, since raising the retirement age would cut the future benefits of current young workers (thus making social security a much less "good buy" for them), such a cut would likely undermine further their support for the programs.

SORTING-OUT SOCIAL SECURITY'S DIVERGENT GOALS

The current social security (OASI) structure reflects a mix of earnings replacement and welfare/social adequacy goals. To carry out the earnings replacement or pension goal, benefits are loosely tied to prior earnings histories. To carry out the welfare/social adequacy goals, benefits are computed utilizing a heavily weighted formula which provides relatively higher benefits (in relation to prior earnings) to lower wage-earners and relatively lower benefits to higher wage-earners. Special minimum benefits are also provided to assist long-term, low wage-earners. In addition, benefits are provided to workers' dependents whether or not they have ever contributed to the system.

The pursuit of both earnings replacement and welfare/social adequacy goals is appropriate within the context of programs that constitute social security. However, social security, as currently structured, attempts to achieve these often divergent and conflicting goals utilizing basically one benefit structure and one tax mechanism—the regressive payroll tax. This intermingling of goals within a single benefit and tax structure has led to many inequities and generated waste and duplication. It has financially impaired the system's ability to achieve fully either of the goals of sufficient earnings replacement and the absence of poverty.

Many higher-income persons, for example, receive unintended benefit subsidies from the system's welfare/social adequacy elements and, ironically, these benefits are largely financed by the tax payments of lower and middle-income workers and their working spouses. At the same time, many lower-income persons who are truly needy and who have borne a disproportionate share of the payroll tax burden throughout their working lives are unable to attain even a bare subsistence level of living on their social security benefits.

To date, social security has been able to mix the earnings replacement and welfare/social adequacy functions without suffering any significant decline in public support. A favorable ratio of workers to beneficiaries and health economic growth rates have made it financially feasible for the system to provide large benefits in relation to what beneficiaries contributed to the system throughout their working lives. In the next century, however, beneficiaries may receive diminishing, and in some cases, negative rates of return on their social security contributions. This is likely to occur due to several factors: the dramatic age shift in the population, the large payroll tax increases that are already scheduled (and the additional ones that could be legislated), the possibility of large benefit cuts (such as raising the age for full benefits), unfavorable economic conditions, and the possibility of scarce resources.

Under these conditions, the system is likely to be scrutinized as to how well it functions, who pays the taxes and who receives the benefits. Therefore, to reduce the increasing benefit and tax inequities inherent in the present structure and assure that the system as a whole operates in a cost-effective manner and in a manner that is understandable to the individual, the Association recommends that social security's earnings replacement goal be more clearly distinguished from its welfare/ social adequacy goals.

The earnings replacement function should be carried out through a benefit structure which stresses individual equity in awarding benefits and is financed from payroll taxes. The welfare/social adequacy functions should be carried out through a benefit structure specifically designed to meet those objectives. This latter structure should be financed out of general revenues generated from progressive tax mechanisms or other appropriate tax sources.

Should healthy economic growth rates such as those the nation enjoyed in the 1950's and 1960's fail to resume in the future or should the cost pressures that will accompany the aging of the post-war baby boom population prove more difficult to deal with than is presently anticipated, a restructured system would at least allow future policymakers to make coherent and rational choices reagarding the allocation of scarce resources. The Congress would be better able to target benefits on the move economically disadvantaged segment of the elderly population without providing unintended windfalls to the more affluent. This is something that is nearly impossible to do under social security's current structure.

ALTERING BENEFIT FORMULA

As an alternative means for dealing with social security's long-term deficit, proposals have been advanced to manipulate the benefit formula in a manner that would attempt to make across-the-board reductions in benefit levels for all future beneficiaries. The Association opposes all such proposals. Since social security is now, and will likely continue to be the primary source of income for the elderly, it is inevitable that these proposals will not only cause a significant deterioration in the future elderly's living standards, but also a resurgence of high poverty rates among the lower-income elderly population.

In addition, the Association believes this is the totally wrong way to deal with the long-term deficit. By cutting everyone's benefits across-the-board, these proposals would make benefits less of a good buy for younger workers than they are now and would reinforce the inequities inherent in the existing social security benefit structure.

Proposals to phase-in reductions in the bend-points of the current benefit formula are also likely to create inequities among different cohorts of retirees, since those retiring before the phase-in would be unaffected while those retiring after the phase-in would have their lifetime benefits substantially reduced. The bend-point option also creates inequities within each cohort of retirees by changing the relative distribution of benefits. For example, under the bend-point option, those with the highest earnings and those with the lowest earnings would experience a greater decline in their lifetime benefits than those with average earnings. This distortion occurs because as the bend-points are shifted, workers with earnings near either of the two formula bend-points experience the largest benefit reductions.

Apart from the distortions inherent in the bend-points proposals, this reform approach completely ignores the revenue potential of any work promotion strategy which, by harnessing the system's ability to influence retirement decisions, could generate more income for social security over the long-term and thereby minimize any future need to raise taxes or reduce benefits.

In attempting to deal with social security's long-term difficulties, Congress can choose between two reform strategies. Either it can attempt to perpetuate the system's present benefit and financing structures and choose between raising payroll taxes further or reducing benefits substantially. Or it can attempt to restructure the system so that the system, first, encourages older persons to work longer and second, awards benefits in a more fair, efficient and equitable manner by using rational benefit and financing structures to carry out the system's divergent goals of earnings replacement and welfare/social adequacy.

The Association supports this latter reform strategy. Not only would it relieve cost pressures on the system, but it would provide current young workers with the assurance that social security represents a "good buy" or fair return on their investment, and that, in their later years, they will have good prospects for achieving income adequacy and avoiding poverty. This is an assurance that the system as presently structured does not provide.

Chairman PICKLE. I thank you for your testimony.

I would say before we go to the next witness that you represent a very responsible national organization that has been working with our committee and we understand some of your concerns.

I may have some questions for you when we come back. Thank you.

Now we will recognize Mr. Clayman as our next witness.

Mr. Clayman represents the National Council of Senior Citizens.

STATEMENT OF JACOB CLAYMAN, PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS

Mr. CLAYMAN. Mr. Chairman, members of the committee, the National Council of Senior Citizens has agonized over its decision on the recommendations of the Commission.

We represent mostly modest income senior citizens. Indeed, many of them are downright poor.

Millions of them cannot stand more social security cuts without serious pain and hurt, but we also understand that there must be a solution of the short range financial problem, which means from now until 1990, which currently bedevils the social security system.

We in the National Counsel of Senior Citizens would not have chosen the mix of remedies proposed by the Commission because they impose hurt on the millions of poor and near poor who are recipients of social security.

I think it is worthwhile to take a quick look at the kind of people we are talking about because very often some of us don't even know these people, or how they exist, or even what they look like.

The average monthly benefit of an aged widow, and most of them are aged women, is $375 and that, my friend, is bare subsistence.

It simply offers the opportunity, if you work hard, to cling to life. One of every four social security recipients are poor or near poor.

These people are still being hit hip and thigh from all directions. I refer, for example, to the administration's proposal to cut benefits and raise the cost of hospital care and physician care, under medicare. These obviously would impinge on the capacity for those people to exist.

In short, we are asking this Congress to give sympathetic attention to the amelioration of this facet of the Commission's recommendations. Namely, the poor and the near poor.

Now then, let me talk for a minute or two on the long-range approach that is being suggested and bruited around by many, worrying about the long-range financing that must be achieved by raising the age, for example, of retirement.

Some would set it at the age 66 or 67 or even 68. This proposal, no matter how it is explained, no matter how it is defined, is a benefit cut. If the age is raised to 68, benefits would be cut by 20 percent relative to those who retire at the age of 65.

If it is raised to 67, the cut is 13 percent. If it is set at age 66, the cut is 7 percent. Whatever the explanation, that is the sheer reality. It is a cut and we have had plenty of those, and the program itself, the recommendations of the Commission, suggests even more.

I want to suggest that there is no immediate rush or need to find a solution for social security financing that seeks to reach out to 75 years from now. Who can read the future that far away?

Is there anyone in this room who can do that? Is there anyone in this world who can do that?

I believe it is a good assumption that we ought to leave some of our activities extending into the future to posterity. I believe that sometime in the future there will be Congressmen like you, just as wise perhaps, probably no wiser, and just as decent, just as good and just as compassionate, who will know the facts of their time and the realities of their time, and they can make those decisions.

Let me now quote a modern wise man, a man who normally I don't look to for comfort, but let me quote him. He is the Secretary of Treasury, Donald Regan, who recently appeared, as a matter of fact, on January 23, 1983, on the CBS "Face The Nation."

Now, I quote him:

> I don't really believe that anyone can forecast with any degree of validity beyond one year. As a matter of fact, most business economists last year, along with the administration, missed the whole thing.
>
> As late as the middle of the year, business forecasters and the administration forecasters were saying we would have a recovery in the second part of 1982. It did not happen. So that meant none of us projected 6 months in advance with any degree of correctness.

I happened to listen, and I will finish quickly—I happened to listen to David Stockman yesterday, who implied exactly the same thing. He said we can't forecast the state of the economy 1 year in advance, and here we are suggesting that it is possible, that it is doable, that it is necessary now, today, tomorrow, next month, to find a solution to problems that will come into being 50 years from now perhaps, and even 75 years, perhaps. And finally the Commission's compromise was worked out, after much bargaining and negotiation, and we believe it is a generally acceptable compromise.

If enacted as is, it will resolve social security's short-term financial difficulties. It would contribute to increasing the public's confidence in the system, and remove lingering doubts that the social security system is doomed.

These goals are of paramount importance to our members, and all social security beneficiaries. Therefore, while we find the COLA freeze, and almost every one of our associates in the senior citizens movement feel the same, distasteful and unfair, and would urge that it be modified or eliminated from the package, if at all possible, however, we will not fight its enactment as part of the total compromise package.

Here is a caveat. If the compromise does become unraveled, and there are any significant modifications or additions, short-range, long-range, we will not hesitate to marshall vigorous efforts to also defeat the COLA provisions.

Thank you.

Chairman PICKLE. Thank you, Mr. Clayman, very much, for good testimony.

[The prepared statement and attachment follow:]

STATEMENT OF JACOB CLAYMAN, PRESIDENT, NATIONAL COUNCIL OF SENIOR CITIZENS

Mr. Chairman, members of the Subcommittee, I am Jacob Clayman, President of the National Council of Senior Citizens. NCSC is a national organization which represents 4.5 million elderly people in every state through 4,500 senior clubs and state and area councils. I appreciate the opportunity to speak to you on their behalf on a subject vital to their welfare: Social Security.

The National Council of Senior Citizens was founded in 1961 during the fight for Medicare legislation, but our roots are deeply embedded in Social Security. Few of our members are not touched by this program. NCSC leaders and members share a deep and abiding commitment to the preservation and improvement of Social Security and work hard toward the goal that this nation's senior citizens will live in dignity, security, and relative independence.

Because of milestones such as Social Security and Medicare, this country has made great strides toward achieving that end. Testimony to Social Security's success is that 14 to 15 million elderly people are kept *out* of poverty. However, future success will not be assured without continued effort by groups such as NSCS and its members, and by sensitive public leaders from the Congress to the White House. The work of the National Commission on Social Security Reform and this series of hearings are such efforts.

Although the Commission was appointed to avert what some viewed as an impending crisis, we must consider their work as part of a process of adjustment to a dynamic, maturing social insurance structure. President Franklin Delano Roosevelt's words when he signed the Social Security Act nearly 48 years ago illustrate this concept well:

"The civilization of the past hundred years, with its startling industrial changes, has tended more and more to make life insecure. Young people have come to wonder what would be their lot when they come to old age. The man with a job has wondered how long the job would last. . . We can never ensure 100 percent of the population against 100 percent of the hazards and viscissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and his family against the loss of a job and against poverty-ridden old age. This law, too, represents a conerstone in a structure which is being built but is by no means complete."

And so we are here today to address the issue of how the Social Security system can be adjusted to meet its financial needs while assuring its ability to serve the citizens it was created to protect.

THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Mr. Chairman, the National Council of Senior Citizens commends the members of the National Commission on Social Security Reform for their accomplishments. While the Commission's recommendations contain provisions not readily embraced by groups and individuals whose perspective on Social Security and its financing differ markedly, several noteworthy points about the Commission's work and the compromise package must be made:

1. *The Commission unanimously endorsed the preservation of both the system's fundamental structure and the principles on which it is based.*—By doing so, the Commission rightfully rejected proposals which would reform, replace or eventually destroy the nations vital social insurance program.

2. *The Commission clearly established the scope of the financing problem and largely focused on the short-term financing of Social Security.*—In doing so, the members dispelled the unfounded predictions of the system's financial demise and the claims that major structural change was required.

The National Council of Senior Citizens believes that these accomplishments are essential if we are to maintain today's workers and retirees' confidence that Social Security will adequately protect them.

RECOMMENDATIONS OF THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

The package of recommendations reported by the National Commission has been praised by many people, including the Commission Chairman, as a true compromise: nobody likes it. The National Council of Senior Citizens is no exception. Yet we recognize the value of the compromise and will not try to destroy it.

We understand that the compromise represents a very delicate agreement among participants who hold opposing views on Social Security and on the remedies that should be enacted. We believe, therefore, that the Commission's recommendations must be examined and judged as a whole package. To depart that perspective would destroy the package and jeopardize the progress made thus far toward correcting trust fund imbalances without overburdening any affected groups. If changes are to be made, they should be accomplished within the framework of the compromise and not upset the balance.

In their discussions, the Commissioners focused on three time periods spanning the next 75 years: The first, between now and 1989, was the Commission's principal concern. The second period, 1990—2020, by most accounts, will be a time of relative ease for social security as the trust funds build up a surplus. The third, from about 2020—2050 will be a time of uncertainty for Social Security. However, the nature of the problem and the solutions it requires will depend heavily upon the performance of the economy, unemployment and inflation rates over time, and birth and immigration rates.

THE SHORT TERM: 1983—1989

The Commission not only agreed that a short-term problem exists between now and 1989, but it also firmly placed the blame for the problem on the poor economy. During the year in which the Commission worked, the nation's economy fell deeper into recession and unemployment swelled to uprecedented post-war levels. Sensitivity to the harmful impact of the recession on the OASI trust fund revenues led the Commission to base its short-term projections on extremely pessimistic economic assumptions. It projected that $168 billion or 1.8 percent of payroll would be needed by the trust funds in the short term. Yet, we cannot help but wonder, Mr. Chairman, how much lower that projection would have been if Reaganomics was not such a failure. We wonder too, how much smaller the burden on beneficiaries and workers would be if the future of Reaganomics were more optimistic.

NCSC has reviewed and evaluated the compromise package and we have come to several conclusions. First, the immediate, short-term problem is resolved by the consensus recommendations which are also expected to have a secondary impact on the long-term period. Second, the recommendations are targetted toward the source of financing problems: the impact of the poor economy on the trust funds. Thus, trust fund revenue is replenished through existing tax sources rather than changing the benefit structure.

However, our evaluation indicates that in one important respect the package is flawed. It fails to equitably distribute burdens among those who are most able to bear them. In particular, we believe that the recommendation to freeze the COLA until January 1, 1984 penalizes the low-income elderly.

PROPOSAL TO FREEZE THE COLA

The 1972 amendments to the Social Security Act created an annual adjustment to monthly cash benefits to help maintain the real value of the Social Security benefit dollar. The annual Cost-of-Living-Adjustment (COLA) was designed to be protection against inflation for the beneficiary who had little or no means of increasing income to compensate for rising costs. It also removed beneficiaries' income security from the whims of politics and guaranteed an adjustment each year that inflation exceeded three percent.

The COLA is needed by all Social Security recipients to maintain their already reduced standards of living. The have lost their earning power, and any other income, such as private pensions, is not fully indexed, if at all. To the one out of four elderly people who live in or near poverty and to those for whom Social Security is a major source of income, the COLA is vital. For them the loss of a few dollars a month could really mean giving up a needed prescription drug, a few hot meals, paying utility bills, or visting the doctor.

We are being told that the COLA delay would result in a one-time $120 loss for the average older beneficiary. However, this is not the case. There is also a cumulative effect; a six month freeze could in fact result in a total loss of about $1,100 per beneficiary between now and 1990. Moreover, the freeze is regressive and will hit hardest the low-income elderly with little or no other financial support. This group is also one with little social or family support

In addition, it has been suggested that if such a COLA delay is to be implemented, now is the best time to do it, given current low inflation rates. Recent Bureau of Labor Statistics figures show that the change in the CPI for all items from 1981 to 1982 was 6.1 percent. However, what this fails to show is that the vast majority of elderly persons spend almost 95 percent of their budgets on food, shelter, medical care and energy. The cost of at least two of these items is increasing faster than the CPI: in 1982, health care costs rose 11.6 percent and energy costs rose 9.6 percent. The COLA therefore does not even truly compensate the elderly for the costs of many of their most basic needs.

Mr. Chairman, we are not only concerned that the COLA does not adequately compensate the elderly inflation and that freezing it would impose hardship on many older persons. We are also concerned that the three percent inflation rate which triggers a COLA will not be reached this year. Certainly such a low inflation rate is desirable, although currently it is the result of a recession devastating to workers and older people. For the elderly to receive no COLA when inflation continues at high levels in areas such as health and energy would be tragic.

As we have made clear, for those older people living on the edge of poverty, such a loss would be too much for them to bear. We urge you to look at this and consider either reducing the trigger rate or suspending it for this year.

We must also point out another undesirable consequence of this COLA freeze proposal. While the Commission recommended a change only for the Social Security

COLA, attempts are underway to apply the freeze to welfare programs such as SSI and Food Stamps. This strategy is unfair to the recipients of these programs, whether or not they are Social Security beneficiaries. Moreover, the strategy links programs that are and should remain separate. The SSI and Social Security COLA could be granted at the same time but a change in one program should not penalize recipients of the other program.

We suggest that if any change in the SSI COLA is to be made, it should be accomplished after the July 1983 COLA is granted. Another mid-year adjustment can be made on January 1, 1984 so that future SSI and Social Security COLAs could be granted simultaneously. Such a shift would not impose financial hardship on SSI recipients.

To summarize our position on the COLA freeze, we acknowledge that the COLA delay has been proposed in the context of the compromise package. It is part of a package that contains proposals which, on an individual basis, are unacceptable to a wide range of individuals and groups. Were this proposal offered under different circumstances, clearly we would vehemently object and employ concerted efforts to defeat it.

Yet that is not the case in this instance. This compromise was worked out after much bargaining and negotiation, and we believe that it is a generally acceptable compromise. If enacted as is, it will resolve Social Security's short-term financial difficulties. It would contribute to increasing the public's confidence in the system and remove lingering doubts that the Social Security system is doomed. These goals are of paramount importance to our members and all Social Security beneficiaries.

Therefore, while we find the COLA freeze distasteful and unfair and would urge that it be modified or eliminated from the package if at all possible, we will not fight its enactment as part of the total compromise package. But, if the compromise does become unraveled, and there are any significant modifications or additions, we will not hesitate to enlist vigorous efforts to defeat the COLA provisions.

THE MID-RANGE (1990–2020)

The National Commission and the Social Security Trustees recognize much of this period as one of financial strength. The Commission predicts that "income will significantly exceed outgo"[1] through the early 2000's under the intermediate cost estimate.

Payroll tax rates already written into law, even if accelerated, will increase revenue to the OASI trust fund after 1990. Concurrently, the OASI costs will decrease during this period because the over-65 population will grow more slowly due to lower fertility raters during the Great Depression years of the 1930's. At the same time, the post-war baby boom generation is expected to be in the labor force, contributing to growth of payroll tax revenues and maintaining a steady worker to beneficiary ratio for the next 30 years or so.

Considering this mid-term projection, the National Council of Senior Citizens believes that the Commission's recommendations are focussed in the proper time frame. Their recommendations take the system through the critical short-term period, and, recognizing the surpluses predicted for the mid-term, assure nearly 50 years of Social Security solvency.

THE LONG-TERM (2020–2050)

In a recent interview on the CBS television show "Face the Nation" Secretary of the Treasury Donald T. Regan said in response to a question about the Administration's economic forecast:

". . . I don't really believe that anyone can forecast with any degree of validity beyond one year. As a matter of fact, most business economists last year, along with the Administration, missed the whole thing. As late as the middle of the year, business forecasters and the Administration forecasters were saying we'd have a recovery in the second part of 1982. It did not happen. So that meant none of us projected six months in advance with any degree of correctness." (January 23, 1983)

The United States and Canada are the only two nations in the entire world that make actuarial estimates for their National pension programs seventy-five years into the future. One important problem with this is that even a slight error in any of the projections, for instance unemployment, would have tremendous implications for the solvency of the Social Security system.

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[1] Report of the National Commission on Social Security Reform, January 1983.

We are alarmed that given the uncertainty of the future, we sit here today contemplating radical changes in the structure of the system. These changes have been suggested in order to resolve a perceived problem which will not occur for almost 50 years, if at all. We strongly oppose proposals such as raising the retirement age for Social Security eligibility now to address a problem which may or may not occur in the far distant future.

If this were the only reason for our opposition to a proposal such as raising the retirement age for Social Security eligibility, it would be sufficient. However, there are others:

1. This proposal is a benefit cut. If the age is raised to 68, benefits would be cut by 20 percent relative to those received at age 65; if it is raised to age 67, the cut is 13 percent; and if it is set at age 66, the cut is 7 percent.
2. The proposal would hit the same people who are now being asked to bear a great part of the additional financing burden through increased payroll taxes: current workers.
3. The proposal is particularly unfair to those who have had to perform heavy labor throughout their lives. Compared to white collar, higher paid workers, industrial employees will experience more physical difficulty if forced to work longer, and will achieve little financial gain.
4. While it is true that Americans are living longer, we are experiencing more major disabiling illnesses as life expectancy increases. Medical advances have been successful in reducing infant mortality rates and diseases of the young, but fewer advances have been made in diseases such as diabetes, arthritis and heart disease prevalent among the old. Chronic diseases cause 83 percent of all days of restricted activity reported by those over 65.

This proposal would not build confidence in the system among young people. In fact, it would erode it. Many fear that such a move would be the first step toward making a Social Security retirement an unreachable goal. Perhaps that is why in a recent New York Times/CBS News Poll, people of all ages were united in their preference for 65 as the age of retirement. The idea was rejected by a 57 percent to 39 percent vote. This was the same pool which showed that by an overwhelming 58 percent to 27 percent, young people felt the system would be unable to pay benefits when they retired. Clearly, raising the retirement age is no solution for them.

The broad-based opposition to raising the retirement age holds true for another proposal that has been suggested: reducing the replacement rate benefit formula from its current 42 percent of previous earnings to 40 percent. This is a real benefit reduction of five percent. The National Council is unwilling to accept such a solution, primarily because we are not convinced of the problem.

Mr. Chairman, while many of our members have communicated their concern about the six-month COLA delay, a number have raised objections to these long-term benefit cuts as well. They do so out of concern for today's workers and out of their concern for preserving the integrity of the Social Security system. But they are also concerned about their own welfare. Should Social Security begin to lose its broad base of support, they know the system would be in serious trouble, since it is supported by today's workers.

The NCSC believes that the goal of a 75-year actuarial balance in the Social Security trust funds is a meritorious one. We stand firm in our opposition to major changes in the system in order to attain this goal. However, we would be willing to support the Democratic alternative in order to resolve the remaining one-third or so of the problem. A payroll tax increase can be easily repealed if it proves unnecessary, whereas an increase in the retirement age, as many have said, would have to be phased in over a long period of time.

In closing, let me stress that Social Security is deeply imbedded in the American way of life. The people want it, need it, and could not do without it. One can hardly imagine an America without its Social Security system. Social Security will be only as strong as the American people and their elected representatives want to make it. Those who recognize that the system is woven into the fiber of our society, and that without it we as a nation will weaken, must assure a stable future for Social Security. When that happens, and it must happen soon, we will all be better off.

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February 7, 1983

The Honorable J. J. Pickle
Chairman
Subcommittee on Social Security
House Ways & Means Committee
242 CHOB
Washington, D.C. 20515

Dear Congressman Pickle:

During my testimony before the Ways and Means Committee today, while you were presiding, I raised the issue of long-term forecasting which appears in the official text from my testimony on page 9. The text quotes Secretary of the Treasury Donald T. Regan on the subject of Administration forecasting in an interview on the CBS television show "Face the Nation" on January 23, 1983.

During the short summary which I made today of my previously submitted text, I reported that I had heard David A. Stockman, Director of the Office of Management and Budget, speaking on the CBS "Face the Nation" program broadcast, Sunday, February 6. He answered a question about Social Security's long-term problem as affecting the compromise package worked out by the Administration and the National Commission on Social Security Reform. Stockman's statement was clear and concise and I have now been able to secure a transcript from CBS News.

I think this is an important statement -- as you will see from a photographic copy which I have enclosed. I hope you can make it possible to include it in the record of the Hearing.

Sincerely,

Jacob Clayman

Jacob Clayman, President
National Council of Senior
Citizens

JC:sd

Enclosure

First Vice President, Dr. Mary C. Mulvey, Providence, Rhode Island • **Second Vice President,** George J. Kourpias, Washington, D.C.
Third Vice President, Einar O. Mohn, Menlo Park, California • **Fourth Vice President,** Dorothy Walker, Detroit, Michigan
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TRANSCRIPT

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FACE THE NATION

Sunday, February 6, 1983

CBS Television Network, 11:30 AM - 12:00 Noon, EST

and the

CBS Radio Network, 12:30 PM - 1:00 PM, EST

GUEST:	DAVID A. STOCKMAN, Director, Office of Management and Budget
CORRESPONDENTS:	George Herman - CBS News, Moderator
	Hobart Rowen - The Washington Post
	Jane Bryant Quinn - CBS News
PRODUCER:	Joan Barone

ORIGINATION: Washington, D. C.

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can," can one gather from that that you don't think --

MR. STOCKMAN: I think it can come down, but perhaps not as far or as fast as was originally projected.

MS. QUINN: Let me ask you about the bi-partisan solution to Social Security that you've just mentioned. They have not solved the long-term problem. They've just apparently scraped up enough money to get us by the next few years and then Social Security is in trouble again. The thing they couldn't solve is whether to raise the retirement age or to raise taxes to take care of people over the long term. Which would this Administration support?

MR. STOCKMAN: Well, I think our clear priority has to be on the short-term. We must maintain the solvency of that system. We must provide means to pay 36 million checks beginning July 1. Now, it is not fair to say we haven't solved the long-term problem. Given our inability to predict the economy for one year, and that should be evident after the experience that we've gone through, I don't believe it is very sensible to worry about the last dollar of savings needed to close the deficit for 75 years. But I do note that 70 percent of what is felt to be the consensus definition of the long-term problem is dealt with in this package. We would have liked to do more, but it seems to me if we at least get that part of it legislated we will reduce the burden on future Congresses to grapple with this problem.

MS. QUINN: You are not prepared, then, to deal with the longer-term problem, even though the Commission says that the Social Security--

MR. STOCKMAN: We are dealing --

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MS. QUINN: -- will run out of money again --

MR. STOCKMAN: I have to disagree with that strongly. This package does deal with the longer-term problem.

MS. QUINN: It says it will run out of money in the early 1990's -- is what this Commission package says, and that's only seven or eight short years --

MR. STOCKMAN: The package does not say that at all.

MR. ROWEN: Mr. Stockman, the Congress is putting great pressure on the Administration to do something more and something better on the jobs side. How far are you prepared to go to meet this strong demand from Congress which originates, of course, with the rather high level of unemployment of the country?

MR. STOCKMAN: Well, I think we've gone a long way already. And that part seems to be forgotten in the debate. With the big increase last fall and the user fee for airports and for highways and mass transit, we have in this budget $35 billion for public infrastructure: Highways, mass transit, airports, waste treatment. That is 33 percent more than we had in 1982. That represents about 250,000 jobs. There has been a major start.

Now, beyond that, the best thing we can do to put people back to work is achieve at least the modest recovery that we've proposed in this budget. We will have 1.6 million people working next fall than right now if we get a 4 percent recovery, nearly 5 million more jobs by the fall of 1984.

MR. ROWEN: But that's if you get the recovery. What people are talking about is something specific that will handle the growing

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Chairman PICKLE. Now we will ask Isabella Shapiro, presenting the Joint Public Affairs Committee for Older Adults, if she will present her testimony.

STATEMENT OF ISABELLA SHAPIRO, REPRESENTATIVE OF THE JOINT PUBLIC AFFAIRS COMMITTEE FOR OLDER ADULTS OF THE CARING COMMUNITY SENIOR CENTER

Ms. SHAPIRO. Mr. Chairman, members of the subcommittee, thank you for this opportunity to testify before you today. My name is Isabella Shapiro. I am a representaive of the Joint Public Affairs Committee for Older Adults from the Caring Community Center of Greenwich Village. JPAC is a social action coalition composed of over 100 senior centers throughout metropolitan New York.

Social security is the singlemost concern of all older Americans. As the major source of income for two-thirds of America's elderly, we feel that the opinions of retired persons must be foremost when changes in the system are being considered.

Social security and its recipients have been victimized. We have been blamed for almost every ailment that plagues this country's economy. The media has perpetrated a negative image of social security and scared the elderly with unrealistic threats of bankruptcy, so that we silently accept inequitable sacrifice. But remember, we have already been forced to sacrifice, when Congress eliminated minimum benefits for future retirees, cut student and death benefits.

We cannot tolerate further sacrifices in order to negotiate a compromise. We applaud the Commission's recommendations not to alter the fundamental structure of the social security program, to reject proposals to make social security voluntary, and to begin to address the inequities against older women.

We support removing social security from the unified budget, and making it an independent agency. We are, however, adamantly opposed to a 6-month delay in the social security cost-of-living adjustment. Any delay in COLA is a reduction in benefits. A small sacrifice, say some, but not for the lowest elderly, whose every penny is needed for food, rent, heat, costly prescription drugs and other necessary medical care.

If President Reagan's proposed changes in medicare are enacted, these same elderly people will pay considerably more for medical care, while their social security check does not increase.

The cost-of-living increase was a provision under the Social Security Act to insure some small safeguard against inflation for beneficiaries. To remove that safeguard now is regressive, and is a denial of Federal responsibility to the aged.

We are also opposed to the Commission's recommendation that one half the social security benefits of certain recipients be subject to Federal income tax. This proposal represents a departure from the general principles of social security. Setting taxation of benefits as a precedent is dangerous.

We vehemently oppose raising the age of retirement, and lowering the replacement rates to meet the potential future problem.

These proposals are not part of the compromise, and we see them as premature solutions to an undefineable problem.

We give enormous credit to the bipartisan Commission which shows us that stability and solvency of the system could be achieved with minor revisions. However, it is not the only package that could have been created. We feel that there is room for amendments, such as granting permission to borrow from general revenues, sale of special social security bonds, and accelerating and increasing already scheduled payroll taxes coupled with tax credits for workers.

We implore you to lead this Nation to economic recovery by creating jobs, cutting the military budget, restoring cuts in social programs, and rescinding the July 1 tax cuts. The elderly of this Nation urge you to hold public hearings across the country to allow the 26 million senior citizens the opportunity to voice their concerns as I have today.

We hope that you will support our efforts to preserve the integrity of social security by restoring confidence in the system and protecting benefits for current and future retirees.

I thank you for the privilege of testifying before you today.

Chairman Pickle. We thank you.

Ms. Shapiro. I would just like to state, since I have a few minutes, that I have a longer statement that was presented to you prior, and to please accept that also.

Chairman Pickle. We will be pleased to see that that is done. You have stayed within your time. When I made a visit to New York last year, were you with the group that we met with?

Ms. Shapiro. No, I wasn't.

Chairman Pickle. I had a pleasant visit. It wasn't an altogether harmonious meeting.

Ms. Shapiro. I wish you would come again. We would like to meet you again.

Chairman Pickle. I thank you. Interestingly enough, you make a point that many of our subcommittee members have talked about, that while we wish we had time to go throughout America, we have asked each Member of Congress to go out to their district to give them as much information as possible. That is what we need now as much as anything, and your testimony helps point out some of the things that should be considered. We thank you.

Ms. Shapiro. Thank you. I hope you follow through.

[The prepared statement follows:]

STATEMENT OF ISABELLA SHAPIRO OF THE CARING COMMUNITY SENIOR CENTER ON BEHALF OF THE JOINT PUBLIC AFFAIRS COMMITTEE FOR OLDER ADULTS (JPAC)

Mr. Chairman, and members of the Social Security Subcommittee, thank you for this opportunity to testify before you today. My name is Isabella Shapiro. I am a representative of the Joint Public Affairs Committee (JPAC) for Older Adults from Caring Community Senior Center. JPAC is a social action coalition comprised of over 100 senior centers throughout metropolitan New York. It is sponsored by the Jewish Association for Services for the Aged, a member of Federation of Jewish Philanthropies of New York, and many other senior groups. I speak on behalf of the many thousands of senior citizens active in JPAC who could not have the opportunity to appear before you.

Social Security is the single most important concern of all older Americans. It is the major source of income for at least ⅔ of America's elderly, many of whom are living at or near the poverty level. As the recipients of Social Security benefits we feel that the opinions of retired persons should be foremost when changes in the system are being considered. I express our disappointment that today represents the first opportunity that senior citizens have had in shaping the future of the Social Security system. We only hope our words today will carry some weight and do not come too late.

Social Security and its recipients have been victimized. Throughout this year's battle over financing Social Security, the media has perpetuated a negative image of Social Security in particular and the elderly in general. We have been blamed for almost every ailment that plagues this country's economy—employment, inflation and the huge federal budget deficit. Efforts must be made to put an end to this assault by restoring confidence in Social Security and dignity to America's elderly.

Threats of the system's bankruptcy continue to loom overhead as we are warned not to undermine the Social Security compromise package. "If this package collapses there will be no Social Security checks in July" many Congressmen have claimed. You have scared many older Americans irreparably, so that they might silently accept inequitable sacrifice when alternatives are available. We have already been forced to sacrifice when Congress eliminated minimum benefits for future retirees, and cut student and death benefits. I personally am receiving reduced benefits because of legislation enacted in 1977 which lowered benefits for those born between 1917 and 1921.

We appreciate this great effort toward bi-partisanship and understand the difficulty in reaching accord on this difficult issue. However, we feel as older citizens that we cannot tolerate further sacrifices in order to negotiate a compromise.

Senior citizens more than any other interest group applaud the Commission's hard work in its attempts to assure the solvency of the Social Security system. We applaud the Commission's recommendation to Congress not to alter the fundamental structure of the Social Security program or to undermine its fundamental principles. We applaud their outright rejection of proposals to make Social Security voluntary. We are glad to see beginning attempts to address the inequities against older women, although we would like to see them develop further. We support the notion of universal coverage.

We are, however, adamantly opposed to a six-month delay in the Social Security cost of living adjustment (COLA), as proposed by the Commission.

Any delay in COLA is a reduction in benefits. Social Security is the major source of income for two-thirds of America's elderly. For one out of four elderly individuals, Social Security represents 90 percent of their income. Eighteen percent of all elderly women are living below the poverty level. These lowest income Social Security recipients would be forced to bear the brunt of this cut since they rely on Social Security for 85–95 percent of their total income.

The average monthly benefit for an elderly widow is $375.00 per month—a modest sum, to say the least. The proposed 6-month COLA delay will cost the average recipient $20 per month. Over the period 1983–89 the average retiree would lose nearly $1,100, while the couple would lose $1,800. A small sacrifice say some, but not for those whose every penny is needed for food, rent, heat, costly prescription drugs and other necessary medical care.

The elimination of the July 1 Social Security COLA will coincide with the already scheduled increase in Medicare Part B co-insurance. And, if President Reagan's proposed changes in Medicare are enacted, these same elderly people will pay considerably more for medical care while their Social Security check does not increase. We urge Congress to defeat attempts to make changes in the Medicare program which will reduce benefits for recipients.

The cost of living increase was a provision under the Social Security Act to ensure some small safeguard against inflation for beneficiaries. To remove that safeguard now is regressive and is a denial of federal responsibility to the aged.

Many have questioned "why should the elderly be safeguarded against inflation when the rest of us are not?". I respond by reminding you that the items for which older people are forced to spend their income have a far higher inflation rate than all other consumer items—namely sky-rocketing medical and energy costs.

We are also opposed to the Commission's recommendations that one-half of the Social Security benefits of certain recipients be subject to federal income tax. This proposal represents a departure from the general principles of Social Security which excluded benefits from taxation. It also represents a means test, which is a fundamental change and one that will turn the system into a welfare program. The thresholds that are now recommended could easily be lowered in the future, thereby subjecting lower income beneficiaries to taxation. Setting taxation of benefits as a precedent is dangerous.

We express opposition to another proposal to base COLA on the lower of wages or prices if the OASDI Trust Fund ratio falls below 20 percent starting in 1988. Although provision was made to repay benefits when the Trust Fund ratio reaches 32 percent, we feel that this proposal is disastrous. It further erodes the safeguard against inflation that allows many senior citizens to survive.

We vehemently oppose consideration of recent recommendations to make structural changes in the Social Security system such as: raising the age of retirement and lowering the replacement rates to meet the potential future problem. These proposals are not part of the compromise and we see them as premature solutions to an undefinable problem. Estimating a Social Security financing problem that could emerge in the early part of the 21st century depends on too many factors which we connot forecast accurately today. We strongly object to any structural changes in the Social Security system which would be based on a perceived problem that may not come to pass.

We give enormous credit to the bi-partisan Commission which showed us that stability and solvency of the system could be achieved with minor revisions. However, it is not the only package that could have been created. We remind you that the Commission's recommendations are not binding upon Congress but serve as a guideline for your legislative action. We feel that there is room for ammendment to this compromise without dooming it to collapse. We urge consideration of other alternatives. These include: granting permission to borrow from general revenues during periods of high unemployment; sale of special Social Security bonds guaranteed by the Federal government to raise additional revenue, and accelerating and increasing already scheduled payroll taxes coupled with a tax credit for the worker. All of these alternatives are far more equitable solutions and less damaging for workers and retirees than what the Commission is proposing.

We implore you to lead this nation to economic recovery by creating jobs, cutting the military budget, and restoring cuts in social programs.

You must take immediate actions to aid the economy by deferring or eliminating the scheduled July 1 tax cut that benefits corporate America. President Reagan's fiscal year 1984 budget includes a $30 billion increase in military expenditure at a time of double digit unemployment, while social programs continue to be scraped to the bone.

The elderly of this nation urge you to hold public hearings across the country to allow the 26 million senior citizens the opportunity to voice their concerns as I have today. We hope that you will support our efforts to preserve the integrity of the Social Security system by restoring confidence in the system and protecting benefits for current and future retirees.

I thank you for the privilege of testifying before you today.

Chairman PICKLE. Now the Chair will recognize Mr. Max Manes, who is the chairman of Seniors for Adequate Social Security. Mr. Manes.

STATEMENT OF MAX MANES, CHAIRMAN, SENIORS FOR ADEQUATE SOCIAL SECURITY

Mr. MANES. Mr. Chairman, I was in the group that met with you in New York City.

Chairman PICKLE. I see. Glad to see you.

Mr. MANES. My name is Max Manes, chairman of Seniors for Adequate Social Security (SASS), a volunteer organization of elderly.

Ever since we were organized in 1971, it has been our goal to strengthen the social security system and improve its benefits. This is necessary to better meet the needs of those who rely on it now, or will in the future, in retirement or in other circumstances when the normal source of income is cut off. When FDR signed the act establishing social security, he said, "This is the cornerstone of a structure which is being built—but is by no means complete." This remains our guide.

But what we see now is a drive in the opposite direction, cutting of benefits and downgrading the role of social security. Much that has been achieved over the years has already been undone: The minimum eliminated for new beneficiaries, benefits for the disabled reduced, student benefits for survivors being phased out, and death benefit payments restricted.

Now the cost-of-living adjustment, COLA, is on the chopping block, and other benefits are about to be placed there. Already we hear calls to raise the eligibility age. This is deeply disturbing to us. It may not affect us personally, but we are concerned about the future elderly, our children.

Some are attempting to soft pedal the impact of a 6 month delay in COLA. To accept this, one has to shut his eyes to the facts. First, we already have a 15-month delay from the start of the year for which increases are computed and the month of July when they go into effect. This is one reason why recipients are falling behind in buying power even with cost-of-living increases.

Another is that the elderly spend most of their money on necessities, such as health care, food, housing, and energy, which have risen in price more rapidly than the average of the Consumer Price Index. For example, consumer prices rose last year by 3.9 percent, as was recently reported, but the cost of health care rose 11 percent, and prescription drugs even more, some of them by 14.5 percent.

The elderly's disproportionate expenditure on health care, even with medicare, is a constant drain on their limited incomes. A delay in COLA will inevitably force living standards downward, and many will sink to and below the poverty level. That's why we adamantly oppose any delay in cost-of-living increases. May I add that worries among the aged are mounting as we hear that medicare is being readied for major surgery.

We are absolutely against reduction in benefits in any form. To solve the system's fiscal problem, we must not create problems for those for whom social security was established. The solution should be looked for elsewhere.

I'd like to quote from a letter in the New York Times of December 2, 1982, by J. Douglas Brown, who was chairman of the Advisory Council on Social Security in 1937-38:

> Since the Nation as a whole, independent of the beneficiaries of the system, will derive a benefit from the old age security program, it is appropriate that there be Federal financial participation in the old-age insurance system by means of revenues derived from sources other than payroll taxes.

This was recommended by the 25-member avisory council appointed jointly by the Senate Finance Committee and the Social Security Board in 1937.

General revenue, through tax exemptions, is used to subsidize private pensions. It is available for tax breaks for large corporations, the wealthy. It is abundantly available for the swollen Pentagon budget. It is high time it was made available for social security.

Thank you. I may have some additional material that I would like to include in the record, but I would also like to be given about a week for an additional statement dealing with some aspects of this package, particularly with respect to SSI, supplemental security income, the so-called safety net, the so unsafe safety net.

Chairman **Pickle**. The record will be held up until at least the middle of next week. I would suggest you get it in by that time. Your additional statement today will be included in the record.

Mr. **Manes**. Thank you.

Chairman **Pickle**. We thank you for your very forthright statement.

[The additional material follows:]

SASSENIORS FOR ADEQUATE SOCIAL SECURITY NEWSLETTER

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BATTLE OVER SOCIAL SECURITY GOING INTO HIGH GEAR

As 1983 begins, the attacks on Social Security continue without let-up. The National Commission on Social Security Reform, Reagan's creation to provide a "bi-partisan" coverup for cuts, is about to go out of existence. No matter what its report, the issue will be back in Congress. "A grueling, months-long Congressional debate" is forecast. (N.Y. Times, 12/20/82) The future of Social Security is at stake. Almost all Americans will be affected by the outcome. The people themselves must play an active role in the struggle ahead. The debate must not be limited to the politicians and the "experts", and lobbyists for large corporations.

The Reagan Administration and members of Congress hostile to Social Security, of both parties, will be pressing hard for more cuts. Some of these have already been targeted. "The Reagan Administration options," says the N.Y. Times (12/28), "include changing the formula and timing of future cost-of-living increases, raising the retirement age, and scaling back the basic benefit formula for new beneficiaries." According to Older American Reports (12/17), "A six month delay in next year's cost-of-living adjustment" was projected at a recent meeting between Alan Greenspan, Commission chairman, and White House Chief of Staff, James Baker.

Other proposals introduced in the past and withdrawn under pressure, may be re-introduced. To mention just one, sharper cuts in the already reduced benefits for those retiring before age 65. Also, some entirely new proposals may be advanced. It's urgent that we all be on the alert.

DON'T BE BUFFALOED

The drive against Social Security is carried on behind a smokescreen of demagogy. Foes are parading as "saviors" of the system. The false cry of "bankruptcy" is shouted from the rooftops. Sylvia Porter called it, in a recent column, "a scare campaign of vicious proportions." She charged: "High government officials have spouted the propaganda. Others, among them my peers and members of the press, have swallowed the statements without investigation and given them wide circulation. The line

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they take: The program is 'going bankrupt' ... 'facing financial disaster' ... 'going down the tube' ... 'There will soon be no money to pay benefits' ... Bunk! Balderdash! Outright lies!" (Daily News, 12/1). And Barbara Bergman, Maryland University economist, states (N.Y. Times, 11/14): "The public has been 'buffaloed' by cries of bankruptcy."

The Social Security fiscal problem can be solved without cuts in benefits. If the old age fund has a shortage, what's wrong with borrowing from the Medicare and Disability funds which have surpluses? In the past, the U.S. Treasury borrowed from Social Security, why not the other way around? And isn't it about time for general revenue money to be contributed to Social Security, as was projected by its architects, and as is practised in other countries, instead of relying solely on the payroll tax?

In a recent column, Leonard Silk (N.Y. Times, 12/17) discusses a new book on Social Security by Henry Aarons, senior fellow of the Brookings Institute and Professor of Economics of Maryland University, who holds that the United States is "rich enough to sustain Social Security cash benefits for the indefinite future." This answers the bankruptcy scare that has caused so much anxiety among the elderly, and undermined confidence in the future of the system among the young.

Both old and young have a common interest in Social Security. Current beneficiaries include young people, disabled and survivors, as well as retirees. Those now in the work force will, when they retire, rely on its benefits. And if not for the Social Security system, younger people would now be burdened with the support and care of their elders. Yet attempts are being made to whip up an artificial generational conflict over Social Security by circulating misinformation and distortions. It's the old tactic of divide and conquer.

SOCIAL SECURITY - YES!

CUTS IN BENEFITS-NO!

Fortunately, support for the Social Security system remains strong among both young and old, in spite of everything. This has been shown repeatedly in surveys; and seen, too, in the November elections, when many Reaganites were defeated - largely due to their stand on Social Security. This has been recognized by friends and foes alike.

Its popularity has been the main obstacle to the designs of its opponents over the years. Business Week (11/29) may not like it, but it is right on the mark when it says: "The American people...carries on a love affair with the system," and calls attention to "the public's still passionate commitment to Social Security."

The American people want to preserve the system and solve the problem of its financing without reducing the protection it provides. Robert M. Ball, Social Security Commissioner under Presidents Kennedy, Johnson and Nixon, calls attention in a recent paper to the widespread public opposition to benefit cuts shown in recent polls.

Mr. Ball cites the Harris poll, taken at the end of 1981. It reveals, as did other polls, overwhelming disapproval of reducing benefits, either for those already retired or for those retiring in the future; also opposition to cuts in the cost-of-living increases, and against raising the eligibility age from 65 to 68, or the introduction of a means test

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Editor: Max Manes
Ass't Editor: Isabel Manes

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for Social Security. But it showed strong support for the use of general revenue to pay for part of Social Security.

Reporting on a more recent poll taken by it, the Los Angeles Times says (11/12): "President Reagan is out of step with the American public on ways to rescue the financially threatened Social Security system... Although Reagan is adamantly opposed to using general revenue to bolster the Social Security fund, the public overwhelmingly favors the idea."

REAGAN NO LONGER RIDING HIGH

Even in the heyday of Reagan's Presidential honeymoon, when he was riding high and trampling over Congressional opposition, the public outcry against his onslaught on Social Security forced Reagan to retreat. He managed to cut some benefits, such as the minimum, disability, student and death, but was not able to push through the main cuts he was after in his drive to mutilate Social Security.

Since then, the chances to attain his goal have shrunk. The political mood in the country has changed; so has the composition of Congress. Reagan's popularity has taken a dive, and the opportunity to prevent further cuts and defeat the drive against Social Security has vastly improved. But to achieve this, we must increase pressure on members of Congress, both Democrats and Republicans, as well as the White House.

THE PEOPLE CAN WIN

The debate in Congress on Social Security promises to be sharp and intense. Opposing sides will try to influence the outcome. Big business groups like the Chamber of Commerce, and others unfriendly to Social Security, will be lobbying for cuts.

Fighting against cuts will be: the organizations of the aged, the Labor Movement, the Save Our Security Coalition and various other groups involved in the struggle to preserve Social Security. For their efforts to be successful, strong support from the grassroots will be necessary. Both young and old must become involved.

The National Council of Senior Citizens, "absolutely committed to opposing cuts," has called on its members to form task forces and organize "letter-writing campaigns, telephone calls, and other means of persuading representatives and senators to support Social Security."

We've been hearing Reagan's one-liners, now let Reagan and Congress hear ours: Don't cut Social Security! - Cutting benefits will not save the system, it can only hurt! - Don't cut Medicare or any program for human needs! - No compromise on cuts!

Washington must be snowed under with such messages by mail or telephone. We may have to go to Washington to deliver our message in person, to lobby and demonstrate.

In the meantime, delegations should meet with members of Congress when they're back home. The people must assert their right to be heard. Our Representatives and Senators should be urged to hold public hearings on Social Security. Community forums, meetings and rallies can all help to mobilize for victory over the unprecendated Reaganite attack on the Social Security system.

SASS MEETS: Third Wed. of the month, 1 P.M., at The Society for Ethical Culture, 2 W. 64 St., NYC. (Feb. 16, March 16, April 20) Everybody Welcome!

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MEDICARE UNDER THE KNIFE

"Seventeen years after the enactment of Medicare, senior citizens still do not have access to services that the program was designed to provide.....The cost of getting sick and the expense of staying well is very much on the minds of our elderly." (Karen Ignagni, Ass't Dir., AFL-CIO Social Security Dep't)

Less costly health care and easier access to it is what the elderly, as well as the younger generation, want. But that is not what's on the agenda in Washington. Instead, it's major surgery on Medicare, threatening even the limited benefits, while charges to recipients are being raised.

Punish the patient, seems to be the approach to the health care problem. As of Jan. 1, the deductible for hospitalization under Medicare is up from $250 to $304. (It was $40 when the program began.) There's also talk about an additional $25 a day charge, starting with the second day. As for Part B, as of July 1 it will be raised 10.6%, up from $12.20 to $13.50 a month. (It was $3.00 when the program started.)

Other quack proposals are: A Medicare means test, and the withholding of Medicare benefits until the individual has spent $3,000 or $4,000 annually in medical expenses. That is a catastrophic idea.

Deep concern has arisen over the appointment of a Social Security Advisory Council to deal with Medicare. The elderly and the disabled are not represented at all. The Council is weighted in favor of the business community. It is alarming that it has been directed to report by July 1. The Reagan Administration is trying to rush through its plans. It is driving hard to undo whatever good Medicare has accomplished.

Resistance to this devastating course has to be massive and fast. The course must be reversed. Medicare should be improved to better meet the needs of its beneficiaries. In the long run, a comprehensive national health security program for all, young and old, must be enacted to provide health care when needed as a matter of right.

CHANGE THE COURSE

Reagan will be remembered for the effectiveness with which he swept the people's needs under the rug. And he wasn't particular as to who was hurt: old or young, Black, white or Hispanic, the unemployed or the poor, tenants, home owners or the homeless, city people or farmers, etc. All were sacrificed on the altar of Reaganomics. No program for human need escaped his axe. His goal: More wealth for the rich, More billions for the Pentagon.

"President Reagan will probably propose a massive boost in military appropriations for the coming year - at least $40 billion more than the $232 billion the last Congress granted him for fiscal 1983." (Business Week, (1/10/83).

Countless millions have already been victimized. How much more pain must be endured before the pursuit of the insane arms race is stopped?

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HAPPY NEW YEAR TO ALL. Thank you, members, friends and readers, for your support. Without it, SASS, a volunteer organization, not funded, couldn't publish this NEWSLETTER. YOUR CONTINUED SUPPORT IS A MUST!

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[From the New York Times, Dec. 2, 1982]

OVERDUE CONTRIBUTOR TO SOCIAL SECURITY

To the Editor: It is implicit in most discussions in the press these days that a Government contribution to Social Security's Old-age, Survivors and Disability Insurance (O.A.S.D.I.) program would be contrary to the basic principles of the system as planned in the 1930's. This is entirely contrary to the facts.

Back in 1938, the old-age staff of the Cabinet Committee on Economic Security assumed that Government contributions to the system would be necessary and should begin by 1962. The 25-member tripartite Advisory Council on Social Security, appointed jointly by the Senate Finance Committee and the Social Security Board in 1937, recommended the following, after thorough study, in its report of Dec. 17, 1938, on finances:

Since the nation as a whole, independent of the beneficiaries of the system, will derive a benefit from the old-age security program, it is appropriate that there be Federal financial participation in the old-age insurance system by means of revenues derived from sources other than payroll taxes.

The principle of distributing the eventual cost of the old-age insurance system by means of approximately equal contributions by employers, employees and the Government is sound and should be definitely set forth in the law when tax provisions are amended.

The broadening of the coverages of O.A.S.D.I. in the years since 1938 makes Government contributions both more justified and more necessary. Social Security remains a public trust and our national defense against poverty.

J. DOUGLAS BROWN.

[From the New York Times, Nov. 2, 1982]

AN UNTAPPED SOURCE

To the Editor: There is a glaring omission in William Safire's Oct. 21 column. Mr. Safire asks, "Shall we keep the Social Security System solvent by raising payroll taxes or by limiting future increases in benefits?" But he makes no mention of the transfer of money from general revenues.

It is significant that the progressive personal and corporate income taxes, which supply 70 percent of Internal Revenue collections, are never seen as possible sources of funds to help the O.A.S.I. over its period of temporary deficits.

A staff report for the Senate Special Committee on Aging, summarized in a Jan. 17 news article, found that seven European countries use general revenues to finance part of their government pension programs, with proportions ranging from 8 percent for the Netherlands to 24 percent for West Germany and 35 percent for Austria.

The report also said that, with the exception of Switzerland, all the European countries impose higher [social security] payroll taxes than does the United States and that those countries all have a higher share of their population 65 years old and older than does the United States.

Over the years, corporate income taxes as a percentage of pre-tax profits have declined from an average of 47.9 percent for 1950–54 to 35.0 percent for 1981; after-tax profits climbed from an average of $21.2 billion in 1950–54 to 150.9 billion in 1981. A 5 percentage point rise, to 40 percent of pretax profits, would add almost $10 billion a year to general revenues, enough to keep the Social Security trust fund in the black.

Of course, if unemployment continues at its present high level, thereby depriving the fund of billions in payroll taxes, more drastic measures would be required. But, after all, Reagan tells us we're on the road to recovery.

JOHN P. MILLS.

Chairman PICKLE. Now the Chair would recognize Margaret Kuhn, representing the Gray Panthers. Ms. Kuhn.

STATEMENT OF MARGARET KUHN, NATIONAL CONVENER, GRAY PANTHERS

Ms. KUHN. Thank you, Mr. Chairman. I am very happy to be here.

Chairman PICKLE. Can you get a little bit closer to the microphone?

Ms. KUHN. Thank you for the opportunity to testify before your committee and the package that has been before us. I am Margaret Kuhn, founder and national leader of the Gray Panthers. The Gray Panthers are a national intergenerational activist group representing old people and young people for social change.

Before I present my statement, the short version of it, you have the longer version which we request to be entered in the record. I have this preliminary statement.

I wish to protest the fact that President Reagan did not appoint to the Commission any representatives of the people and groups who are the beneficiaries of the system, nor did he appoint the young and middle-aged persons, who are paying into the system. The package was developed without insight and input from them, and this we oppose and protest.

The social security system is an intergenerational system, and the package runs the great risk of pitting the old against the young. The debate in Congress and in this hearing today is in the context of world ferment, the highest unemployment since the Depression, worldwide economic unrest, and an arms race that threatens the whole world with destruction by nuclear weaponry.

We cannot disregard those factors in the military budgets, the high unemployment when we look at the figures and proposals that the Commission has put before us, and I would urge Congress to take this larger view.

In our estimation you cannot make a responsible decision about the package in isolation from the historical social context in which it has been delivered to you.

Some of the elements of the package are meritorious, but the package as a whole is unacceptable to us. We have monitored the Commission's work. We have studied for more than 2 years the social security system, its shortfall and its benefits and also its shortcomings, and we come before you here with an alternative proposal. The Commission's package places a heavy burden as others have testified on the poor and the near poor who are least able to afford it. We are opposed to the COLA cuts as being regressive and cumulative and setting a dangerous precedent. Furthermore, by taxing social security benefits while ignoring other ways of raising revenues is also unprecedented.

We like the fact that the proposal espouses universality of coverage which assures support. It is a good concept but would penalize workers for that universality. It does not address the central reason for the current predicament of social security—the massive increases in unemployment, which are the direct result of President Reagan's disastrous economic policies and military programs. Each percent increase in unemployment causes a loss of about $15 billion in the 5-year period under consideration.

We are cognizant of the awesome task that the Congress has in dealing with the shortfall. We believe that whatever one's views of the package may be that it is imperative for the Congress to enact without delay emergency legislation to continue interfund borrowing capacity beyond the cutoff of July 1, 1983. This is survival for millions and it transcends political differences and lack of concurrence about long-term financing.

We believe that the introduction and the enactment of such emergency legislation should be the first order of business before the Congress, and I would hope that your committee would join in that recommendation.

Furthermore, we join with many others, including those who have testified today, in opposing the delays in the COLA. It would present from our point of view a hardship on those who could least afford it. We have the following proposals which we consider to be equitable and to make up conservatively over $200 billion, which we have estimated:

First, to remove the cap which currently limits the amount of income that can be taxed. This would increase taxes for people with annual income of less than—it would not increase taxes for people of a certain income, and by extending the same tax on income above what the proposal would raise, we originally estimated $85 billion, but a memorandum which we have just received from the actuary of the social security system would raise the estimate to approximately $143 billion. We would like that additional memorandum to be read into the record, Mr. Chairman.

To credit the social security with trust funds for military wage credits and uncashed social security checks would net another $18 billion.

We vigorously support interfund borrowing as a way of dealing with the shortfall and hopefully extended privilege to move in that direction.

We approve banning the withdrawal from the system. This would yield at least $3 billion.

If we would bring forward the scheduled social security tax increase by 1 year and refund an equivalent amount through income tax, this is similar to what the Commission has recommended, and it would raise an additional $40 billion.

If we were to provide for universal coverage without penalizing current and prospective workers, we estimate that there would be an additional $20 billion. However, we believe that the national receipts might be less than fair and equitable if there were not provisions set up to guard against penalizing the new Federal workers.

These proposals from the Gray Panthers would add up to approximately $220 billion.

We further support the Commission's package of benefits for women. We are the survivors and many of us approach old age in poverty and have suffered inequities and discriminations.

We vigorously support the separation of the social security trust funds from the unified budget. The inclusion of those funds in the Federal budget was a political expediency which should never have come to pass. An alarming number of young people and middle-aged people are being persuaded that the social security benefits that they have been promised will not be there when they need them. Many nonprofit organizations are being pressured to withdraw from social security. Accelerated and dangerous divisions are arising between the old and the young, which we deplore. Clearly public confidence must be restored in the system. The Gray Panthers urges the Social Security Administration and Members of Congress to undertake an aggressive campaign of public education to increase public understanding of the wide protection and benefits provided by the system and to restore public confidence in it.

In conclusion, the Gray Panthers recognize the awesome responsibility that Congress has in reviewing and approving the Federal budget, particularly in the present political climate and world economic unrest. We respectfully call attention to the alternative budget proposals projected in March 1981 by the Congressional Black Caucus. We also are looking at the alternative budget for defense that Congressman Ronald Dellums conducted hearings on earlier last year. The Black Caucus proposals include significant reductions for the military's budget and increased allocations for housing, transportation, and education and other services which address the public need which the Reagan budget ignores. If your committee and other Members of Congress take leadership on these budget matters and on these alternative proposals, there are coalitions of Americans, millions of us, who will support you. We have already succeeded in preventing the implementation of some of the more detrimental proposals made by the administration. Yours is the power to lead; now lead.

Thank you.

[The prepared statement follows:]

STATEMENT OF MARGARET KUHN, NATIONAL CONVENER, GRAY PANTHERS

Thank your for the opportunity to testify today on the Recommendations on the National Commission on Social Security Reform.

I am Maggie Kuhn, founder and national convener of the Gray Panthers, a national activist intergenerational organization involving both old and young people.

For two years the Gray Panthers have given national priority to the Social Security system and how we can make it secure for all Americans. We have monitored the Commission at work, engaged in intensive study and analysis of the report, demonstrated publicly during Commission meetings to encourage the Commission to act justly and courageously.

Today we make this preliminary response to the report:

Some of the elements of the Commission's report are meritorius, but the "package" as a whole is unacceptable to us. The Commission's package places a heavy burden on those least able to afford it—as in the COLA cuts. It sets a dangerous precedent, by taxing the Social Security benefits while ignoring other ways of raising revenues. It espouses universality of coverage which insures support, a good general concept, but would penalize workers for that universality. It does not address the central reason for the current predicament of Social Security—the massive increases in unemployment which are the direct result of President Reagan's disastrous economic and military program. Each percent increase in unemployment causes a loss of about 15 billion dollars over the 1983–89 period.

We are cognizant of the immediate cash flow problem that Social Security will face when the monies from Interfund borrowing will run out. $17 billion was borrowed from the Disability and Health Trust Funds in 1982 to meet requirements until June 30, 1983. Whatever one's views of the "package" it is imperative that Congress enact emergency legislation to continue interfund borrowing as needed, to assure there will be no interruptions or delays in the issuing of Social Security checks to beneficiaries. This is a survival matter for millions and its transcends political differences and lack of concurrence about the long time financing. We believe that the introduction and enactment of such emergency legislation should be the first order of business before Congress. We urge its passage as an alternative to the Commission's package.

Further, we join many others, including those within the Commission itself, in not accepting the Commission's figures of a $168 billion shortfall between now and 1989. However, we believe the following Gray Panther proposals are equitable and make up the $168 billion which has unfortunately been accepted as a basis for discussion:

(a) Remove the cap which currently limits the amount of income that can be taxed. This would not increase taxes for people with annual income of less than $35,700. By extending the same tax on income above $35,700 the proposal would raise about $85 billion.

(b) Credit Social Security for trust funds for military wage credits and uncashed Social Security checks. The Commission calculated this at $18 billion. We believe it should be larger because no account has been taken of inflation or interest.

(c) Allow for interfund borrowing between the three Social Security trust funds.

(d) Ban withdrawal from the system. This would yield at least $3 billion.

(e) Bring forward the scheduled Social Security tax increase by one year and refund an equivalent amount through income tax. This is similar to the Commission's report which would raise $40 billion.

(f) Provide for universal coverage without penalizing current and prospective workers. The Commission estimates that universal coverage would raise $20 billion. However, we believe that national receipts might be less if fair and equitable treatment provisions were set up to guard against penalizing new federal workers.

(g) Provide fair Social Security taxing to the self-employed. The Commission's proposal would raise $18 billion. However, the proposal will hit low amd middle income self-employed persons very hard, including farmers. We propose that the tax bases for self-employed workers be raised only for those earning more than $20,000 year.

These proposals from the Gray Panthers would add up to 170 billion, addressing the revenue requirements through 1989, as mapped out by the Commission. We strongly urge that these measures be accompanied by a federal jobs program which is essential to restore and insure the health of the economy in general and the Social Security system in particular. This jobs program must be of such magnitude as to result in full employment. Full employment will develop sufficient revenue for Social Security and enable us to anticipate some reduction in Social Security tax rates. In our "pay as you go" system, Social Security's future depends on full employment.

The predicted problems for the Social Security system to occur around the year 2005 are based on forecasts of a reduced ratio of workers to retirees. These predictions are extrapolated from current trends. Yet the ever accelerating pace of change makes the only certainty in predicting the future, the certainty that change will occur.

Unemployment—a shortage of jobs, the exportation of jobs overseas at a million a year, note overabundance of workers—has long been American problem. Gray Panthers believe that with imagination and innovation there is both now and in the future, work to be done and workers to do it. Further, we believe that everyone who is able to work is entitled to satisfying and financially rewarding work. Old and young should not have to fight each other for jobs.

The attention of the Ways and Means Committee and the Congress should be directed to what is popularly termed "Jobs for Peace." Vast military expenditures and technical skills allocated for the Cruise Missile and the Pershing II, highly debatable forms of national defense, should be released to meet the enormous backlog of domestic needs for housing and public transportation, and investment in long-term peaceful improvements in our national security and quality of life for our American people. While millions of poor and elderly Americans live in squalor and uncounted homeless people live on the steets, the people in the Pentagon squander billions and risk the destruction of the earth in nuclear war.

We urge support for the Commission's recommendations for a package of benefits for women. We women are the survivors and have suffered many inequities and discriminations.

We also vigorously support the separation of the Social Security trust funds from the unified federal budget. The inclusion of the Social Security monies was a political expediency which should not be contenanced by our people or the Congress.

WHERE WE STAND

Gray Panthers believe that Social Security is contract between the American people and their elected government to provide every citizen with the dignity of financial independence. It is based on the constitutional right to life, liberty, and the pursuit of happiness for all Americans including women, minorities, disabled, young, widowed and orphaned, as well as aged.

Gray Panthers believe that the deceptive statements made by President Reagan and others in this Administration have created fears that the system will collapse. These statements are based on faulty assumptions, and expose the Administration's hidden agenda to privatize and destroy the system. The massive advertising campaigns by banks, insurance companies, and the Federal government all support the belief that Social Security is a dying system, and IRAs and private pensions are being used to lure people and organizations away from the Social Security system and undermine its visability.

An alarming number of young and middle aged people are being persuaded that Social Security benefits will not be there for them when they need them. Many nonprofit organizations are being pressured to withdraw from Social Security. Accelerating and dangerous divisions are arising between the old and the young.

Clearly public confidence must be restored, and further withdrawals must be stopped. Social Security can and must be guaranteed to all present and future recipients.

Gray Panthers urge the Social Security administration and members of Congress to undertake an aggressive campaign of public education to increase public understanding of the wide protection and benefits provided by the system and to restore public confidence in our Social Security.

PUTTING THE SOCIAL SECURITY SYSTEM IN PERSPECTIVE

When the Social Security system was enacted into law in 1935, millions of older people had no savings or pensions. To conform to the American desire for independence, the sytem was funded solely by the payroll tax. As a result, Social Security is a pay-as-you-go entitlement program. During their active years workers pay into the fund. The money is then disbursed to current retirees. At the same time deductions made are credited to the worker's retirement account.

Although Social Security was intended to be supplementary retirement income, it is most retirees' primary, and for many, only income. Many recipients are without pensions because their places of employment has no plans or because they lost their pension rights due to job changes. Others who always held low-paying jobs were unable to accumulate savings.

Since the system was begun it has been expanded. It now assists the orphaned children of workers, including funds for education to help them become productive members of society. It assists widows, making it possible for them to remain at home while they have young children. It provides the disabled with dollars lost through accident or illness. It makes it possible for the nation's elderly to end their lives with some semblance of dignity.

Gray Panthers believe that the American people do not wish to return to a system where any of these groups become the objects of public or private charity.

In conclusion, Gray Panthers recognize the awesome responsibility of the Congress in reviewing and approving the federal budget, particularly in the present political climate and world economic unrest. We respectfully call attention to alternative federal budget proposals projected by the Congressional Black Caucus on March 18, 1981 by Chairman Rep. Fauntleroy. We are also mindful of the alternative defense budget proposed by Rep. Ronald Dellums. Recent hearings in Rep. Dellums' Armed Services sub-committee considered other options for a Defense Budget. The Black Caucus proposals include significant and viable reductions in defense spending as well as increased allocations for housing, transportation, and education. They address the big backlog of public need which the Reagan budget ignores. Regrettably the proposals of the Black Caucus have received minimal attention on the Hill and in the press. We urge your committee to consult with the Black Caucus and the Armed Services sub-committee without delay and give the American people as well as the Congress some options that are just and human.

If your Committee and other members of the Congress take leadership on these budget matters, there are coalitions of Americans who will support you. We have already succeeded in preventing implementation of even more detrimental proposals made by the Reagan administration. Yours is the power to lead.

Chairman PICKLE. The audience is reminded not to respond with applause or other demonstrations of approval or disapproval.

Thank you. I notice on your statement that you were the founder of the Gray Panthers; is that correct?

Ms. KUHN. Yes. We began in the summer of 1970 with six of us who were confronted by mandatory retirement, and we had to find out what we were going to do with the rest of our lives.

Chairman PICKLE. How many members do you have now?

Ms. KUHN. We have 60,000 in 30 States. We have some very active Gray Panthers in your district.

Chairman PICKLE. Yes, I was going to say——

Ms. KUHN. You will be hearing from them, I assure you.

Chairman PICKLE. I will try to observe again that I believe all of them are as active as you are, because they are in my district, and you do make a contribution to the body politic of America, because all of them are active and do business with us, and we appreciate your testimony. And I have noted your testimony that you would—you have made a recommendation of some $170 billion at least, you would recommend how else we would raise the money.

Ms. KUHN. We have itemized that in the longer statement, but the revised figure that I just gave to you was based on the estimated figure that we received from the actuary of the social security system.

Chairman PICKLE. I notice you would raise it primarily by raising taxes and by raising the wage base and continued interfund borrowing.

Ms. KUHN. Yes.

Chairman PICKLE. I want to ask all the panel members, as an overall package—not taking into consideration your likes and your dislikes of parts of the bill, do any of you disapprove the package as a whole and think we should not pass the package and not keep it intact? Is there opposition to the bill as a whole?

Ms. SHAPIRO. Yes. We do not approve of raising the age to retirement. We do not approve of the 6-month delay in COLA. I think people are not aware of how much money people will lose by the 6-month COLA. It is not $20 a month for 1 year. For a single person it would come to $1,100 in the 7 years. That is a lot of money.

Chairman PICKLE. Yes. I notice that you did not—most of you did not want the 6 months' COLA delay, and I can understand that, but I am talking now about the package as a whole. And I have noticed each one of you have different points that you would recommend and how you would go about it. If we were to take out the COLA, that would be some $40 billion in this overall package, so we have to ask ourselves and members of the committee, where then do we get that extra amount of money? We have to go back to the other choices that you have recommended, raising taxes, increasing the wage base, tax all benefits, raising the age, and that type of thing. So we have a problem that if we would follow your suggestions in some respect we would take out a key portion of the package and then we would be faced with the proposition of raising the balance. I know that you understand that, and that is why the overall package is indeed a fragile package, and we are trying to balance it.

Mr. Anthony, do you have any questions?

Mr. ANTHONY. Mr. Chairman, I do not have any specific questions of the panel. I think that their testimony stands on its own base. Just speaking for myself as one individual member of this subcommittee and of the full committee, I promise you that we are going to take into consideration two very, very important things that I think are on your minds. One, that social security is a solid contract between the Federal Government and the recipients, and second, we are going to be working very, very hard to put together a fair and equitable package that might not satisfy you 100 percent, but hopefully when all is said and done you can say that the Congress did act responsibly in trying to keep the system solvent. We look forward to your continued assistance as we start marking up the bill.

Ms. KUHN. Mr. Chairman, I urge that in your deliberations as the subcommittee and full committee, as you put together the fair and equitable proposals that you are going to bring before Congress that you look at the alternative proposals which we put before you. We think that if you look at the revised figure that the actuary has given us there would actually be a sufficient income to justify a reduction in the tax that employers and employees pay into the system. We think that is something that merits consideration.

Chairman PICKLE. Mr. Brickfield?

Mr. BRICKFIELD. Mr. Chairman, you said that you would hope members of your committee would travel throughout the Nation, and find out what the tenor is out there. I hope they do, because there are tens of thousands of people out there that are 40 years old and 50 years old. They are younger workers.

There is a generation between them and their parents, and many of them have either one parent or two parents, elderly parents still alive. And where you have a married couple, you can have as many as four elderly parents still alive. These working people look upon social security as a godsend. They have their own financial problems with raising children and sending them to school, mortgages, et cetera, and they would have to shoulder an even greater burden.

The polls that we have been looking at—in fact, one last week by CBS and published in the New York Times—indicates that the people are willing to raise taxes from other sources before they would seek to cut benefits. I think this reflects the attitude of the younger worker toward their elderly parents.

Mr. Chairman, we are very much concerned, as I am sure you are, that the proposals of the Reform Commission provide sufficient increases. They are inadequate in our opinion.

The $168 billion is unlikely to make it. If in the short term, you rely on transfers from other trust funds, you put the other funds in jeopardy. It is the old story of robbing Peter to pay Paul.

The other stated available method is to accelerate the stabilizer mechanism. Here again I point out that the stabilizer mechanism is, unfortunately, a benefit cut.

The stabilizer uses a COLA formula equal to the lower of wages or prices. We are looking, in summary, at benefit cuts in COLA's, benefit cuts in the stabilizer, and benefit cuts in taxation of benefits. If you add them up, the Congress is looking at $70 billion plus of benefit cuts.

Chairman PICKLE. The National Commission recommended unanimously that we have some kind of a stabilizer. They recommended the difference of wages and prices. What kind of stabilizer would you recommend?

Mr. BRICKFIELD. Our presentation, Mr. Chairman, is that we would raise revenues from nonpayroll sources.

Chairman PICKLE. You would have excise taxes?

Mr. BRICKFIELD. What the Commission didn't do, and it had a year to do it, was to look at the demographic changes during the last 45 years.

In 1937 there were 20 to 30 people working to support one in retirement. Then, the idea was to push the older worker out to make room for the younger. That attitude has changed.

Today we only have three workers to support one in retirement and we are encouraging older people to work. That is why we passed the law abolishing mandatory retirement.

Chairman PICKLE. The program would start off with that kind of ratio.

Mr. BRICKFIELD. Mr. Chairman, after 45 years we ought to rethink the system. We are saying that you can't do it just out of payroll taxes any more because there aren't enough workers to support the great number in retirement.

Chairman PICKLE. Your testimony was that if $168 billion was not enough and as we look down the road for the long term, that we ought to use sources other than payroll, such as excise taxes.

Mr. BRICKFIELD. Yes.

Chairman PICKLE. And that is a consideration. I don't think there is much support for it here in this committee of the Congress, but I know it has been recommended and it is an alternative.

Mr. BRICKFIELD. There are lots of precedents for it, Mr. Chairman.

Chairman PICKLE. Do any of you have any additional statements that you want to make?

Mr. Manes, you look like you are ready for another speech.

Mr. MANES. Not a speech. We are worried about this process that has been set into motion starting a year ago last May by President Reagan when he proposed the laundry list of cuts in the social security system.

They have been hacking away at the system, chopping it down. We feel that this has to be stopped and the cut in COLA is part of that process.

We are worried about it and we feel that it is time to make a stop to it.

Chairman PICKLE. Well, I noticed very definitely your recommendations or your observations that we had cut social security in four or five major areas already—the minimum benefit and survivors' benefits and death benefits—and that is true.

The social security system, as we proceed to pass legislation that would take care of it both short and long term, we are trying to see that it is continued strong and solvent to take care of the purposes for which it was created.

We can argue whether we should or shouldn't have taken the action we did in the last 2 years, but we have done that and I don't think there is any changing of that position.

We have to recognize that we have a contract with the people not only to keep benefits, but this committee has a contract with the people to take care of the solvency of the system in the years to come so that the money will be there 10, 20, 30 years from now.

Mr. Clayman said we don't need to look more than a year ahead.

Mr. CLAYMAN. No.

Chairman PICKLE. You quoted Mr. Reagan saying no one made an estimate in the past year that was any good.

Mr. CLAYMAN. Essentially my point was that we don't have to reach out for 75 years now. In the first place, we don't have the wisdom to do it. We are not stargazers and can read the future, and so it is unnecessary.

As a matter of fact, the European nations do not follow our practice. They follow a practice of a much shorter term. They follow a practice of 30, 40, 50 years, but not 75 years.

Here we are worrying about what may happen 75 years from now when we have a devil of a time even determining what is going to happen tomorrow.

Chairman PICKLE. You would recommend that we try to solve our short term between now and the end of this decade, would you not?

Mr. CLAYMAN. And we can go beyond that. We can go, for example, to 2015, 2025.

Chairman PICKLE. You would look ahead 25 years, but 75 years, you don't think we can do that; that is your point?

Mr. CLAYMAN. I don't think we need to take positive action now. As I say, the European programs that have been successful, as successful as ours, do not take this long-term approach.

Chairman PICKLE. You believe that the 75 years' actuarial balance should be accepted as a goal—that is, we ought to try to think in terms of, how do we find it down the road.

What you call a goal and what we call legislation may be different, but we are thinking along the same lines. We have to think in years beyond.

It is not an appropriation for this year or next year or the next 2 or 3 years. It must consider the young people coming up, and somehow we need to make arrangements. If we don't take care of the long-term deficit, we will continue to lose the confidence of our young people. That concerns us.

Mr. CLAYMAN. I say we should not make drastic plans, and changing the age limitation is a drastic action. Do that now based on what may happen 75, 60 years from now, because, you know, none of us can be that wise.

Chairman PICKLE. Well, I can understand your observation, but you also say that we ought to have this as a goal. You also say that you would support the Democratic alternative of just raising the taxes to make the 75.

So you recognize that we do have a problem, and that is what we have to take care of ourselves.

Ms. SHAPIRO. I would like to thank you for reiterating some of the things I said in my testimony, that some of us, including myself, have already taken a very large cut in social security.

I am sure you are aware that people born in 1917 and later get reduced benefits by comparison to people born in 1916. I think that should have been considered by the Commission, too.

Chairman PICKLE. That was an old notch problem and it existed, no question about it.

We have a notch problem now with respect to the taxing of benefits to the $20,000 to $25,000 level. We are trying to handle that better than we did the other notch, so it would not be unduly burdensome on that particular bracket. We are mindful of that.

Mr. **Manes**. Other countries contribute from general revenue in support of their social security system. Why not contribute here?

Chairman **Pickle**. If I get your point, there may be times when we will have to depend some on general revenue.

Mr. **Manes**. Now is the time.

Chairman **Pickle**. But we also have to ask ourselves, with a $200 billion deficit, we have to say, is this the time?

Mr. **Manes**. The time is long overdue. It was the understanding at the very beginning that general revenue will have to come in in the 1960's and it is already 20 years past the early 1960's.

Chairman **Pickle**. Mr. Gradison?

Mr. **Gradison**. Mr. Chairman, I am tempted to approach this by generalities and platitudes, but I am not going to.

I think it is important to point out that Congress has been urged ever since the beginning to use general revenues and has chosen not to do so. This hasn't been a casual decision.

The reason, bottom line, is because of an awareness that once general revenues are used, we are on our way to making social security a means tested system. That is to say, if social security has to compete year by year for the limited funds available in the general budget, there is no absolute assurance that they are going to get appropriated as against other competing needs of funds.

That has been an objection raised by some of the strongest supporters of social security from the beginning, that if it is to be an earned right, it is far better to keep it on the basis of financing from an earmarking of a specific tax which is not related to the general revenue. That has been the case.

Maybe that is not an appropriate argument any more, but when you see what is happening to other programs on the books which must compete for the so-called general revenue or out of general revenue that wasn't committed, you can see the hazard to social security of getting involved in that kind of a priority setting or mechanism through the budget.

I have been advocating, and I see some of you support the notion that we ought to go back to the way the system was up until the late 1960s and remove social security from the unified budget, and that is a step toward making it clear that this is an earned right, that it sits on its own bottom financially, that it is unrelated to general revenues, that it has to be financed internally.

Mr. **Manes**. Government pensions are subsidized by general revenue.

Mr. **Gradison**. I saw that point in your general testimony. You are correct that a corporation contributing to a private pension plan can deduct it, but it can also deduct and does deduct and gets a tax benefit from its tax that it passes for social security.

Mr. **Manes**. They are not means tested. That doesn't mean that the program has to be means tested.

Mr. **Gradison**. If we use general revenue, this program is going to be means tested as sure as we are sitting here today.

Mr. **Manes**. This is raised only in connection with social security, not anything else.

Mr. **Brickfield**. It is already in the recommendations of the Commission, when it talks about taxing benefits. That provisions puts money into general revenue. That is the first thing.

Second, it is means tested. It is a means test and it cuts benefits. Not only that, but the Commission also has——

Mr. **Gradison**. You have testified against that point, too.

Mr. **Brickfield**. Mr. Gradison, we are testifying for raising revenues, but they should be earmarked revenues that don't go into general revenues but should go into the trust funds, much like the 5-cent tax on gasoline which goes into the highway trust fund, not general revenue.

In its report the Commission recommends $40 billion of unfunded general revenues.

Mr. **Gradison**. Let me just say in closing that we are called upon to mediate between today's workers and yesterday's workers. That is really what it is all about, and the ones not yet born.

I will just say, for myself, that there is enough trouble trying to restore lost confidence in the system among the people who pay the bills, today's workers, without dumping even higher taxes on them than the Commission has called for.

Whether it is an excise tax on liquor or tobacco or a tax on payroll, most of it will be paid for by the workers of today. We are fooling no one by saying it is a different kind of tax.

You are saying that in the balance between resolving these problems, between raising taxes and cutting benefits, you wanted to tilt it heavier than the Commission on the side of higher taxes.

I am going to support the Commission's package with regard to the short term, but I think they went too far already in loading the burden on present workers. I am scared to death about whether this package can hold together if we go even further beyond the suggestions already made insofar as a harder burden on present workers.

The problem is that the system is out of balance. It is out of balance, and in due respect, it has nothing to do with the administration.

It is out of balance because wages have not been rising as fast as prices. Prices are rising faster than wages.

The year it was out of balance most was 1980, before Reagan got elected. That is where it is.

We can try to wish away the facts by blaming it on the Republicans or the Democrats or the old people or the present workers or trying to make a partisan issue out of it, but if we don't act, if we don't hold a compromise together, those checks aren't going to go out on time in July. And I don't want that to happen any more than you do.

Ms. **Shapiro**. Might I make one more point? We are opposed to voting on this compromise as a package. We feel that there is room for amendments, parts of the package, parts of the compromise do not benefit the senior people, do not benefit the young, the future retirees, and we would like it voted point by point.

Thank you.

Chairman **Pickle**. Thank you.

Ms. Kuhn. Mr. Chairman, in our testimony we strongly urged the enactment without delay of emergency legislation that would extend the interfund borrowing capacity of the system. I would reiterate that. I think it is terribly important. We ought not to be pushed into adopting a package that has obvious inequities.

If there was this interfund borrowing capacity, there could be some longer term resolution of it, and I also respectfully point out too that the budget deficit which we are all concerned about is not the fault of social security. It is the fault of budget transfers within this administration due to an enormous military budget, all out of proportion.

Chairman Pickle. Mr. Manes.

Mr. Manes. As part of the gross national product, we are still paying less for social security than other industrial countries, and their social security systems are much more comprehensive than ours.

They have a health system too, and other benefits that we don't have, and the only reason people are objecting to bringing in general revenue, because it means that people with higher incomes will have to pay into the system too, and they want to retain, to limit itself to the payroll tax, which is a regressive form of taxation.

Why not tax the higher incomes, the corporations, so that the people who depend on the system—and it is the most reliable system, it is the most economic system—these other systems that have been proposed in the course of this debate are not as reliable as social security, and social security should be maintained, it should be built, and those who have not contributed, society as a whole, has a responsibility to make its contribution to the system and that means general revenue.

Chairman Pickle. I want to caution the audience again that under the rules of the House we do not allow the demonstration of applause. You are our guests here. We are glad you are here. We are glad you can listen. We want you to hear the testimony.

I want to thank all of you for your testimony. You make very pointed, very clear recommendations. We know your position from your good testimony, and we appreciate your support. We are working to come up with the best possible package along the lines recommended by the Commission. Your input will be noted. We thank you.

The subcommittee will adjourn until tomorrow morning at 9 a.m. We will have some 20 to 25 different witnesses during a long day tomorrow, so we will start promptly at 9 o'clock in this room.

The subcommittee is adjourned.

[Whereupon, at 12:35 p.m., the subcommittee adjourned, to reconvene at 9 a.m., Tuesday, February 8, 1983.]

FINANCING PROBLEMS OF THE SOCIAL SECURITY SYSTEM

TUESDAY, FEBRUARY 8, 1983

House of Representatives,
Committee on Ways and Means,
Subcommittee on Social Security,
Washington, D.C.

The subcommittee met at 9 a.m., pursuant to notice, in room 1100, Longworth House Office Building, Hon. J. J. Pickle (chairman of the subcommittee) presiding.

Chairman **Pickle**. I will ask the committee to come to order and we will proceed with the first panel. The first panel is one consisting of Mr. Kenneth Austin, Mr. James E. Crass, Mr. Thomas Gregg, and Florence Galkin, if you four would come up and take your places at the witness table.

While they are taking their seats, the Chair will announce that we have some six or seven panels today so we must stay on schedule.

I will remind you again the rule we are proceeding under is that the entire statement will be included in the hearing, but we ask each witness to summarize that statement within 5 minutes, and then we will have questioning. We had excellent cooperation yesterday and we know we will have the same kind of cooperation today. If you feel you want to make additional statements apart from here, we will be pleased to hear from you.

The first panel this morning consists of Mr. Kenneth R. Austin, the chairman and chief executive officer of the Equitable Life Insurance Co. of Iowa. I might add we have had the privilege of working with Mr. Austin on many occasions and counseling and visiting about our programs. We are very pleased to have you, Mr. Austin.

We also have Mr. James E. Crass. Mr. Crass is not here this morning. Then we have Mr. Thomas Gregg, who represents the National Association of Liability Underwriters. Then we have Florence Galkin. You are accompanied by whom?

Ms. **Galkin**. Mr. Hyman Bookbinder of the American Jewish Community.

Chairman **Pickle**. We are glad you are with us. Mr. Austin, do you have somebody with you?

Mr. **Austin**. Mr. Steve Kraus of the American Council of Life Insurance staff.

Chairman **Pickle**. I believe we will start, Mr. Austin, with you. If you will present your testimony, the committee will be pleased to hear it.

STATEMENT OF KENNETH R. AUSTIN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, EQUITABLE LIFE INSURANCE CO. OF IOWA, CHAIRMAN, COMMITTEE ON SOCIAL SECURITY AND HEALTH CARE OF THE AMERICAN COUNCIL OF LIFE INSURANCE

Mr. AUSTIN. Thank you, Mr. Chairman.

The council has long been interested in the development of appropriate——

Chairman PICKLE. Mr. Austin, we are having trouble hearing you. Please speak right into the microphone.

Mr. AUSTIN. The American Council of Life Insurance has long been interested in the development of an appropriate national retirement income policy. Social security performs a vital and indispensable part of this scheme, providing, as we all know, a floor of protection.

To continue this role, the system must function properly and be financed adequately, which means that action must be taken immediately to correct its critical problems.

The National Commission has recommended a compromise solution to meet the short-range deficit and about two-thirds of the long-range deficit. On balance we think the plan is a reasonable compromise to help assure the solvency of the social security system. Although the plan does not include all the changes we would have preferred, and while we have some reservations about certain elements in the package, it does provide progress in the right direction.

If I may, Mr. Chairman, I would now like to comment on several of the specific recommendations of the National Commission.

One: Acceleration of scheduled tax increases. The National Commission recommends that the already scheduled social security tax increases be accelerated. While we would have preferred a package without tax increases, social security payroll tax rates must be set at levels that are adequate to finance reasonable benefits provided by law even if this means accelerating already scheduled increases under present law.

Failure to maintain payroll tax rates at adequate levels would probably lead to the use of general revenues to finance social security, which we strongly oppose. It would be particularly devastating in view of the large budget deficits confronting us for the foreseeable future.

We are concerned about the Commission's recommendation for a refundable tax credit which accompanies the accelerated tax increase for 1984. We recommend that it be made clear that this credit will not be considered a precedent for future legislation since it introduces general revenues into social security financing.

Two: Indexing of benefits. We believe that much of social security's financial difficulties is due to the great financial drains on the system resulting from present procedures for indexing social security benefits. Accordingly, a comprehensive review should be made of the present indexing procedures to determine whether they are appropriate in the present circumstances.

The National Commission has recommended that beginning in 1988, a cost-of-living adjustment stabilizer be part of the social security system. Although this represents a step in the right direction, we would have preferred an earlier effective date than 1988 and a higher trigger level.

We believe the delay will subject the social security program to a possible strain during a period when the trust funds have virtually no margin of protection. In addition, we believe the trigger level being set at 20 percent of annual benefits does not provide adequate protection for the funds. We believe a higher, more prudent level is warranted.

We support the 6-month COLA delay, recommended by the National Commission. The implications it has for other Federal programs are also very important. Not only does it make an important contribution to the short-term financial problems of social security, it also sets a significant precedent for other entitlement programs.

Three: Elimination of windfall benefits and movement toward universal coverage of government employees and employees of nonprofit organizations. We support the Commission's recommendation that coverage be extended to new Federal civilian employees and all employees of nonprofit institutions as an appropriate step toward universal coverage.

We also support the recommendation of the National Commission to eliminate the windfall benefits received under social security by former government employees and employees of nonprofit institutions who have spent most of their working careers in noncovered employment but who acquire sufficient coverage to qualify for social security benefits.

Finally, we support the Commission's recommendation that the option of State and local governments and nonprofit organizations to withdraw from coverage be eliminated.

Four: Increase the retirement age under social security gradually, after sufficient advance notice. The major issue which was left unresolved by the National Commission is how to handle the remaining long-term deficit. We strongly believe it is essential to provide now for a gradual increase in the retirement age under social security, thus giving individuals sufficient advance notice to adjust their retirement plans.

We suggest that the normal retirement age be kept at 65 until the year 1990 and that thereafter it be increased by one-fourth of a year annually until a retirement age of 68 is reached for 2002 and later years. At the same time, the early retirement age should be increased to 65 in corresponding gradual increments.

As an alternative, age 62 could be kept as the earliest retirement age with an actuarial adjustment in the size of the benefit for retirement prior to age 68, the new normal retirement age. In addition, a provision should be included that would automatically raise the retirement age as life expectancy improves.

Finally, we agree with the recommendation of the National Commission that a fail-safe mechanism is necessary to assure that benefits are paid on a timely basis despite unexpectedly adverse conditions which occur with little advance notice.

In closing, I want to emphasize again that prompt action must be taken to bring expenditures and receipts into balance. We believe the recommendations of the National Commission on Social Security Reform, which go a long way toward accomplishing these objectives, should be enacted into law as quickly as possible.

We also urge that you consider making the changes in the retirement age needed to bring the system into long-term balance. Also, we have indicated several areas in which we would have preferred different approaches to those suggested by the National Commission. If you decide to make changes in the package, we urge that you consider our recommendations carefully.

I appreciate the opportunity to present the views of the council and would be happy to answer any questions the subcommittee may have.

[The prepared statement follows:]

STATEMENT OF KENNETH R. AUSTIN FOR THE AMERICAN COUNCIL OF LIFE INSURANCE

I am Kenneth R. Austin, Chairman and Chief Executive Officer of the Equitable Life Insurance Company of Iowa, and I hold comparable positions with several affiliated life insurance companies. I also serve as Chairman of the Committee on Social Security and Health Care of the American Council of Life Insurance. I am appearing here today on behalf of the Council which represents 572 life insurance companies. These companies account for 95 percent of the life insurance in force in the United States and hold 95 percent of the assets of all life insurance companies.

GENERAL COMMENTS

We are pleased that your Subcommittee is holding this public hearing on the financing problems of the Social Security system and on the solutions to these problems recommended by the National Commission on Social Security Reform. Social Security performs a vital and indispensable function in providing protection for our older population in the areas of retirement income and health care costs and for all our population in the areas of disability and survivor protection. For these reasons, it is essential that public confidence in the system be maintained. In order to accomplish this, the system must [illegible]tion properly and must be financed adequately.

Social Security now faces [illegible] financial problems. The National Commission unanimously recommended [illegible] purposes of correcting the short-range (1983–1989) problems of the [illegible] funds, $150–$200 billion either in additional income or in decreased outgo [illegible] combination of both) should be provided. The problems faced by Social Security [illegible] accentuated by stagflation which increased benefits and decreased [illegible] According to the latest available estimates, unless remedial action is [illegible]SDI trust fund will be unable to meet the July 1983 payments on [illegible]

The system also faces [illegible] deficits on the basis of what now seems to be the most reasonable economic and demographic estimates. The projected deficits become very substantial in the second quarter of the next century when the ratio of Social Security recipients to active workers will increase to relatively high levels, placing heavy financial burdens on the active workers who support the system. The National Commission has unanimously concluded that the imbalance for the 75-year valuation period ending in 2056 is an average 1.8 percent of taxable payroll.

In view of these conditions, we believe that action must be taken immediately. The National Commission has recommended a compromise solution to meet the short-range financing problems of the Social Security system and to cover about two-thirds of the long-range deficit. On balance, we think the plan is a reasonable compromise to help assure the solvency of the Social Security system. Although the plan does not include all the changes we would have preferred, and while we have some reservations about certain elements of the package, it does provide progress in the right direction. In general, we urge your support of the plan.

SPECIFIC COMMENTS

I would now like to comment on several of the specific recommendations of the National Commission.

1. ACCELERATION OF SCHEDULED TAX INCREASES

We believe that Social Security should continue to be financed solely through payroll taxes paid equally by covered workers and employers. Such payroll taxes enable covered workers and employers to share the cost of the program in a responsible fashion. These taxes have the capability of producing the large sums necessary to finance Social Security. Moreover, they have the virtue of being highly visible, and they help to maintain the vital link between an employee's benefits and the taxes paid by the employee to support the system.

The National Commission recommends that the already scheduled Social Security tax increases be accelerated by moving the 1985 OASDI tax rate of 5.7 percent forward to 1984, by keeping the current law rate of 5.7 percent for 1985-1987, by increasing the 1988-1989 rate to 6.06 percent and by keeping the 1990 rate as in current law (6.2 percent).

While we would have preferred a package without tax increases, Social Security payroll tax rates must be set at levels that are adequate to finance reasonable benefits provided by law, even if this requires Congress to bring forward increases already scheduled under present law. Failure to maintain payroll tax rates at adequate levels would probably lead to the use of general revenues to finance Social Security. This would be particularly devastating in view of the large budget deficits confronting us for the foreseeable future. The adoption of general revenue financing would reduce confidence in the Social Security system, as it would be widely construed as a sign that we are not willing to face up to the need to keep the system on a sound financial basis. Moreover, unless we are willing to accept continued budget deficits with their unfortunate consequences for inflation, the use of general revenues to finance Social Security means that other taxes will have to be raised sharply. In other words, to the extent that payroll taxes are not used to finance Social Security, other forms of taxation less suited for this purpose will have to be used.

We are, however, concerned about the Commission's recommendation for a refundable tax credit which accompanies the accelerated tax increase for 1984. We recommend that it be made clear that this credit will not be considered a precedent for future legislation since it introduces general revenues into Social Security financing.

2. INDEXING OF BENEFITS

We believe that much of Social Security's financing difficulties is due to the great financial drains on the system resulting from present procedures for indexing Social Security benefits. Accordingly, while benefits should continue to be adjusted for inflation in order to preserve their role as providing a floor of protection and in order to prevent hardship to beneficiaries, a comprehensive review should be made of the present indexing procedures to determine whether they are appropriate in the present circumstances. This review should include an examination of the present Consumer Price Index (CPI) to determine whether it accurately reflects changes in the cost of living for Social Security beneficiaries and whether revisions in the index are needed to avoid overstating increases in such living costs. The present indexing procedure, for example, appears to give undue emphasis to the increased cost of home ownership associated with rises in mortgage interest rates, since the bulk of Social Security beneficiaries do not purchase new homes.

Moverover, there is the broad question of whether the Nation can afford to insulate completely from inflation Social Security beneficiaries, or indeed any other large group of individuals with benefits paid for by taxes collected from workers and employers who are not so insulated. One way to correct this situation would be to limit the annual increase in Social Security benefits under automatic indexing to a specified percentage of the increase indicated by the CPI. Another possibility would be to limit the annual increase in benefits to the increase in average wages for years when such wages increase less than the CPI.

The National Commission has recommended that a cost of living adjustment stabilizer be part of the Social Security system. That is, beginning in 1988, COLA increases will be based on the lesser of wage increases or price increases if the trust fund balances are below certain trigger levels. Although this represents a step in the right direction which we support, we would have preferred an earlier effective date than 1988 and a higher trigger level.

We believe the delay will subject the Social Security program to a possible strain during a period when the trust funds have virtually no margin of protection. In addition, we believe the trigger level being set at 20 percent of annual benefits does not provide adequate protection for the funds. Although the OASDI trust fund ratios were falling at a rate of between 5 percent to 10 percent of annual outlays during much of the decade of the 1970's, the 20 percent level was not reached until 1981. We believe a higher, more prudent trigger level is warranted. If the cost of living adjustment stabilizer with a higher trigger level had been enacted in 1977, the program would not now be faced with its short-term financing problems.

Also, we support the six month COLA delay recommended by the National Commission; the implications it has for other Federal programs are also very important. Not only does the COLA delay make an important contribution to the short-term financial problems of Social Security; it also sets a significant precedent for other entitlement programs. This will help to reduce our huge deficits and thus to encourage economic recovery.

3. ELIMINATION OF WINDFALL BENEFITS AND MOVEMENT TOWARD UNIVERSAL COVERAGE OF GOVERNMENT EMPLOYEES AND EMPLOYEES OF NONPROFIT ORGANIZATIONS

We support the recommendation of the National Commission to eliminate the windfall benefits received under Social Security by former government employees and by employees of nonprofit institutions who have spent most of their working careers in noncovered employment but who acquire sufficient coverage to qualify for Social Security benefits. It has been estimated these individuals pay over their working lifetimes Social Security taxes amounting to only one-third of what the average worker pays, but these individuals get two-thirds of the average benefit received by other workers. Thus, present law gives such individuals unintended advantages in allowing them to receive the full effect of the heavy weighting in the present benefit computation formula which was designed to help and which should be confined to workers who were paid low wages over many years in employment covered by Social Security. Both equity and fiscal considerations strongly favor the elimination of the windfall elements in benefits being paid to individuals whose primary employment was outside the Social Security system.

Moreover, eventual universal coverage under Social Security must be provided for all government employees and employees of nonprofit organizations in a way which assures that present employees who spend their entire careers in such employment do not have less overall benefit protection. We support the Commission's recommendation that Social Security coverage be extended to new Federal civilian employees and to all employees of nonprofit institutions as an appropriate step towards this goal.

Finally, we support the Commission's recommendation that the option of State and local governments and nonprofit organizations to withdraw from coverge be eliminated.

4. INCREASE THE RETIREMENT AGE UNDER SOCIAL SECURITY GRADUALLY, AFTER SUFFICIENT ADVANCE NOTICE

The major issue which was left unresolved by the National Commission is how to handle the remaining long-term deficit. We believe it is essential to provide now for a gradual increase in the retirement age under Social Security, thus giving individuals sufficient advance notice to adjust their retirement plans. Americans are now living significantly longer and are generally able to work until a later age than they did in 1935 when the earliest retirement age for the receipt of benefits was set at 65. As life expectancy becomes longer, it is appropriate to reapportion an individual's life span between years of work and years of employment. The Age Discrimination in Employment Act, as amended in 1979, recognizes this by generally prohibiting employers from setting up plans that mandate retirement prior to age 70, except for some highly compensated executives.

Unless the retirement age under Social Security is increased, the future will see substantial increases in the relative size of the retired population and relatively smaller numbers of active workers to carry on the Nation's productive process. This change will be especially marked in the early part of the next century when the front end of the post-World War II baby boom will begin to reach 65. Currently, there are approximately 3.2 workers who support each beneficiary. When the baby boom generation retires, there will be only two workers to pay the benefits of each beneficiary—or even fewer if there birth rate or immigration rates do not increase.

Social Security should recognize these important demographic and social developments. A gradual increase in the minimum retirement age for receipt of full benefits would help to stabilize the financial position of the Social Security system and would avoid placing undue financing burdens on the working population. Such an increase would greatly reduce the ratio of retirees to active workers in the next century and could eliminate the remaining long-term deficit projected by the Commission which was not dealt with in the Report.

We, therefore, suggest that the normal retirement age be kept at 65 until the year 1990 in order to avoid hardship for those currently near retirement, and that thereafter it be increased by one-fourth of a year annually until a retirement age of 68 is reached for 2002 and later years. At the same time, the early retirement age, at which reduced Social Security benefits are payable (now 62) would be increased to 65 in corresponding gradual increments, again starting the upward movement at about 1990. As an alternative, age 62 could be kept as the earliest retirement age with an actuarial adjustment in the size of the benefit for retirement prior to age 68, the new normal retirement age. In addition, a provision should be included that would automatically raise the retirement age as life expectancy improves. These changes would give the public a long advance notice of the changes and yet have the new normal retirement age be fully effective when most needed—when the members of the World War II baby boom population begin to retire, early in the next century.

Finally, in addition to the cost of living stabilizer mechanism, we agree with the recommendation of the National Commission that a "failsafe" mechanism is necessary to assure that benefits are paid on a timely basis despite unexpectedly adverse conditions which occur with little advance notice. There are several types of fail safe mechanisms that can be used, and we would be glad to work with your Subcommittee to develop the most appropriate one.

This concludes my specific remarks. In closing, I want to emphasize again, in view of Social Security's vital importance to our older people and the Nation and the questions that have been raised about its financial problems, that prompt action must be taken to bring expenditures and receipts into balance. We must put Social Security on a sound financial basis, both in the short-run and over the long-term. We believe the recommendations of the National Commission on Social Security Reform, which go a long way towards accomplishing these objectives, should be enacted into law as quickly as possible. We also urge that you consider making the changes in the retirement age needed to bring the system long-term balance. Finally, we have indicated several areas in which we would have preferred different approaches to those suggested by the National Commission. If you decide to make changes to the package, we urge that you consider our recommendations carefully.

I appreciate the opportunity to present the views of the Council and would be happy to answer any questions the Subcommittee may have.

Chairman **Pickle**. That is a very reasonable position, Mr. Austin. A lot of other organizations said they support the package, but they want to be advised if there is a departure from it. But you have given a good, concise statement here and your point is well made.

Now the Chair will recognize Mr. Thomas Gregg, chairman of the NALU Committee on Federal Law and Legislation.

STATEMENT OF THOMAS GREGG, CHAIRMAN, COMMITTEE ON FEDERAL LAW AND LEGISLATION, NATIONAL ASSOCIATION OF LIFE UNDERWRITERS

Mr. **Gregg**. I am Tom Gregg. I am a life insurance salesman from Topeka, Kans. I am here representing the National Association of Life Underwriters and I am its chairman of Federal Law and Legislation Committee. We sincerely appreciate, Mr. Chairman, the opportunity of being here and want to thank the subcommittee for allowing us to testify this morning.

The National Association of Life Underwriters, made up of 125,000 agents, is the largest agents' association in the United States. As life underwriters we counsel singles and marrieds, old and young, about their financial futures. We talk about their financial problems and attempt to solve those problems.

Historically we view social security as a base or a foundation on which all future financial planning or building is done. The Social Security Administration discusses this subject with more beneficiaries, but I am sure that our association members talk to many more American taxpayers about social security benefits.

This is what we have been trained to do and we do it well. If an agent makes 5 calls per week, and Mr. Austin would prefer that we make 10 because he is home office personnel, then we are exposed 5 times to America's feelings about the future.

In most interviews we talk about social security. We are the primary source of social security information to individuals and to families. We have historically touted social security as being the cornerstone of family financial planning.

Assuming 125,000 agents making 5 interviews a week, face to face, eyeball to eyeball, we are in effect seeing 615,000 Americans each week, for a total of 32 million American interviews per year. It is correct to assume that because of our activities, we are attuned to public attitudes.

Our clients share their concerns, their apprehensions and their views with us, and most of the time quite vocally. More and more we are hearing sentences such as this: "Please don't bother with the social security part; it won't be there," et cetera. Or "Don't even talk to me about social security, I don't want to hear it." Or conversely, "Tell me more about social security; is it really a good program?" Or "Forget the amounts, we will never get anything anyway."

Concern seems not to be with dollars but with permanency. Working America is concerned about social security. Too many citizens, too many of the folks that we talk to daily and weekly feel that it is a lost cause.

NALU is dedicated to help in any way that we can to put social security on a really sound financial base and to reverse a totally negative impression. There must once again be public confidence in the system.

There are some long range problems that have been left almost untouched by the Commission's report. These problems will need attending in the future. Congress will need to begin addressing these questions before long.

For instance, the long range financing problem was left unresolved. Two solutions might be increasing the retirement age to 68 over a long period of time but beginning fairly soon, and Congress could make the automatic increase in benefits, the lower of either wages or prices.

Because of the fragility of the package and the immediacy of the financing problem, we feel that prompt action is vital. We endorse the National Commission's recommendations in total. This is a remarkable achievement and a great step in the right direction. It is fair, equitable, reasonable, and doable.

Let me say once again that the National Association of Life Underwriters fully endorses the bipartisan proposal, and for the National Association of Life Underwriters, I would like to thank you once again for allowing us to be here.

Thank you.

[The prepared statement follows:]

STATEMENT OF THOMAS M. GREGG ON BEHALF OF THE NATIONAL ASSOCIATION OF LIFE UNDERWRITERS

Mr. Chairman and Members of the Committee, my name is Thomas M. Gregg. I am a life underwriter in Topeka, Kansas. I am appearing here today as the representative of The National Association of Life Underwriters (NALU). NALU appreciates the opportunity to offer its comments concerning the National Commission on

Social Security Reform's consensus agreement on ways to preserve and strengthen the Old-Age, Survivors and Disability (OASDI) System.

The National Association of Life Underwriters is a federation of 978 state and local associations. These state and local associations in turn have a combined membership of over 125,000 individual life and health insurance agents, general agents and managers doing business in virtually every community in the United States. The individual members of the federated associations are called life underwriters.

From the creation of the Social Security program to the present time, life underwriters have provided a primary source of information to individuals and families on what Social Security means to their financial security.

In their professional work, life underwriters counsel individuals and businesses on the means of providing financial security for themselves and employees through private life and health insurance. While it is probably safe to say that the Society Security Administration talks to more Social Security beneficiaries than anyone else, we believe it is also accurate to say that life underwriters talks to more Social Security taxpayers than anyone else. The kinds and amounts of insurance to be sold are frequently determined in part by the benefits to be provided by Social Security. Thus, Social Security plays a significant role in the financial security planning of most individuals.

NALU acknowledges that the Social Security program was designed to provide a basic floor of protection against economic want and need, financed by earmarked taxes imposed upon employers, employees and self-employed individuals and by earnings on the Social Security trust funds.

Upon this basic floor, each covered person, by individual initiative, should plan and build additional economic security for himself and his family by means of private savings, investments, insurance, pension programs and the like.

Through their daily consideration of Social Security, life underwriters have developed expertise in the subject and occupy a unique vantage point from which to assess the public perceptions of the Social Security system.

We are grateful that the National Commission was able to achieve a bipartisan consensus on the seemingly intractable issue of Social Security financing. At the same time, not unlike every other witness who will testify on the bipartisan compromise plan, NALU could, of course, offer subjective suggestions for improvement of various individual elements of the Commission's proposal. (Under other circumstances, we might take issues, for example, with the general revenue financing implications of the proposal). But any such suggestion, however well intentioned, might only serve to weaken and endanger the workable compromise reached during the final hours of the Commission's deliberations. The Commission was composed of representatives of as broad a political, business and labor spectrum as could reasonably be hoped for, and all viewpoints were voiced and considered over the one-year period of the Commission's existence. NALU has great respect for the Commission's achievement, particularly in view of the partisan nature of the debate. Parochial viewpoints should not now be allowed to dilute the overall merit of the Commission's work.

NALU, therefore, supports the compromise agreed upon by a majority of the National Commission on Social Security Reform and urges Congress to adopt it. Social Security is our largest domestic program and action to strengthen the financial status of the program should not be deferred. The expiration of inter-fund borrowing authority and the anticipated inability of the retirement fund to pay full benefits in a timely manner after July 1 of this year is reason enough in itself to impel Congress to act promptly to adopt the Commission's recommendations without delay.

Without temporizing NALU's support for the Commission's recommendations in the aggregate, we would like to offer specific comments in the following areas:

UNIVERSAL COVERAGE

NALU particularly favors the National Commission's recommendation that OASDI coverage be extended on a mandatory basis, effective January 1, 1984, to all newly hired civilian federal employees, and that OASDI-HI coverage be extended to all employees of nonprofit organizations. (We would go even further and say that, ideally, even current federal employees employed less than five years, including new Members of Congress, should be covered as well. NALU would also favor the inclusion of state and local employees in the program.)

Coverage of federal government workers may bring a new perspective to Social Security by the people who run it. It always appears ironic, not to say self-defeating, that the individuals who make the decisions with respect to Social Security, namely

Members of Congress and current employees of the federal government, are not themselves dependent upon it for their own security.

WINDFALL BENEFITS

NALU applauds the National Commission's recommendation to eliminate windfall benefits for persons with pensions from non-covered employment. One of the most disturbing aspects of Social Security today is the ability of some workers to take advantage of the weighted benefit formula, which was adopted by the Congress to help individuals who work at low wages for a long period of time. As adopted, this provision has a worthwhile goal, but many workers who are not low-paid have become its beneficiaries.

This occurs when a worker not covered by Social Security either moonlights or retires from government service at a relatively young age, goes to work in covered work, and becomes eligible for the minimum Social Security benefit, a benefit much higher than that which would be purchased on an actuarial basis by his contribution.

There seems to be widespread belief that government workers in particular have placed themselves in a superior position vis-a-vis the private sector. Government workers are perceived as enjoying pension programs that far exceed those that are available to the private sector, and have manipulated the Social Security system so as to take advantage of the weighted benefit. Lifelong coverage under Social Security would put an end to all windfall benefits problems, and should be adopted for that reason.

TAXATION OF BENEFITS

At first glance, this proposal appeared objectionable to us because it seems calculated to penalize thrift and investment. But on further inspection NALU believes the Commission's proposal is consistent with current tax treatment of private and public worker pension plans, which tax benefits derived therefrom (although only after contributions have been recovered). Taxing benefits is consistent with general tax policy, which is to tax income from every source derived.

We had first feared that this proposal would infuse general revenues into Social Security, but this fear was alleviated by earmarking the tax collected for the OASDI trust funds.

SHIFT COLA'S TO A CALENDAR-YEAR BASIS

NALU supports the six-month delay in the automatic cost-of-living adjustment in benefits from July 1 to January 1. (In a perfect world, designed of course by us, we would prefer a change in the cost-of-living adjustment formula itself, so as to more directly relate benefit adjustments to the taxes paid into the system which support those benefit increases; alternatively, we would prefer a delay of a longer period to offset the greater rise in recent years of the cost-of-living over wage levels.)

REVISION OF TAX BASIS FOR SELF-EMPLOYED

This proposal will bring self-employment taxes in line with the combined employer-employee rate. It will create an equitable balance between contributions made with respect to employees and self-employed persons, while at the same time the proposed business expense tax treatment of one-half of the self-employed contribution will bring the impact of the Social Security tax in line with that now paid by employer/employee groups.

INCREASE IN DELAYED RETIREMENT CREDIT

NALU favors the gradual increase in delayed retirement credit for individuals between 65 and 70 from 3 percent to 8 percent per year. This should increase the desire to continue working of this age group in the future, which could be financially beneficial to the Social Security system and to the workers and the economy as well.

REALLOCATION OF OASDI TAX RATES AND INTER-FUND BORROWING AUTHORITY

NALU generally supports the reallocation of the OASDI tax rates between OASI and DI for a more realistic distribution. However, we question the wisdom of extending inter-fund borrowing authority from HI (Medicare) to OASDI. We believe that the HI costs must be brought under reasonable control, and soon. If further steps need be taken to redistribute the funds flowing into the Social Security system, a permanent restructuring of the tax rate should be undertaken again.

While a restructuring of the tax rate is less flexible than an extension of interfund borrowing authority, there is a certain comfort in a permanent solution. The discipline necessary to implement a rate restructuring can provide the basis for real improvement in public attitude towards Social Security. News of the oversight function will reaffirm the notion that a responsible Congress is making judgments that will guarantee the continuation of the Social Security system into the twenty-first century.

STABILIZER PROVISIONS

NALU supports the automatic trigger, effective 1988, to base automatic benefit increases on the lower of CPI or wages when the combined OASDI fund falls below 20 percent of the annual outgo. This is a step in the right direction. However, the 20 percent level may be too low to safely allow for timely correction. We would prefer automatic increases to track every year with the lower of the increases in prices or wages, beginning January 1, 1984.

This may also be an appropriate time to briefly address longer-range financing problems, if only for the record. We think the Congress should consider the following proposals for long-term reform:

RETIREMENT AGE

The compromise package adequately addresses short-term financing concerns over OASDI; it does does not resolve the entire long-term payroll deficit. The Commission's compromise would cover only 1.22 percent of the 1.80 percent projected payroll deficit, leaving 0.58 percent unresolved.

Recent fertility data indicate that the Commission may have underestimated the long-range payroll deficit. Secondly, the Commission uses intermediate economic assumptions for the long-term. But past experience would indicate that such assumption may be unduly optimistic. Congress should take the necessary action now to assure future retirees that they will receive expected benefits.

Confidence is not high among current taxpayers that Social Security will pay them the benefits they expect when they retire. To restore taxpayers' confidence in the system, the Congress must convince them that the system will remain financially sound far into the future.

In our view, taxpayer confidence would be bolstered if Congress were to increase the normal retirement age on a gradual, phased-in basis to age 68, to take full effect in approximately forty years. This step is well justified by the increasing longevity of Americans as well as their extended economical productivity.

At the very minimum, Congress should enact the recommendations of eight members of the Commission to raise the retirement age to 66 in the year 2015.

BENEFITS SHOULD RISE WITH THE CONSUMER PRICE INDEX OR INCREASE IN WAGES, WHICHEVER IS LOWER

As a long-term structural reform, the system should be geared so that benefits can only be paid to the extent that increases in wages occur, presuming the Congress wishes to maintain the Social Security program on essentially a pay-as-you-go system. No insurance system, public or private, can maintain its integrity without the ability to control income and outgo of the system. Steps must be taken now to tie the benefit structure to its underlying financing structure so that the two may go forward together.

SUMMARY

Virtually all viewpoints on the Social Security financing issue were expressed and considered during the National Commission's year-long deliberations. The compromise package has received the endorsements of the President and the leadership of both Houses of Congress. The package is a compromise where all sides could take issue with various individual elements of the proposal but would, in so doing, jeopardize the package itself. The compromise is a reasonable one. We urge that the Congress meet the challenge and promptly enact the compromise into law.

Chairman PICKLE. We thank you for your testimony. We are off to a good start this morning. We thank both of you gentlemen.

Now we will recognize you, Ms. Galkin.

STATEMENT OF FLORENCE GALKIN, NATIONAL COCHAIR, COMMISSION ON URBAN AFFAIRS, AMERICAN JEWISH CONGRESS, ON BEHALF OF THE AMERICAN JEWISH CONGRESS AND THE AMERICAN JEWISH COMMITTEE

Ms. GALKIN. Good morning. I am Florence Galkin, chairperson, Commission on Urban Affairs of the American Jewish Congress. I am appearing here today on behalf of both the American Jewish Congress and the American Jewish Committee, two national organizations of American Jews that are concerned with the viability of our social security system.

We share the general concern with social security's viability. At the same time, part of our interest is based on the demography of the Jewish community. The Jewish community has a higher percentage of members over age 65 than are found in the rest of our society. Moreover, the social security program is an effective means for lowering or eliminating Jewish poverty which is concentrated among the aged. The Commission's proposals are a compromise. We agree with President Reagan's January 15 statement that they contain elements which each of us could not support if they were not part of a bipartisan agreement.

As a compromise package, no group, including the American Jewish Congress and American Jewish Committee, achieved the inclusion of all of its positions in the Commission's final recommendations. What is important is that the Commission's proposals affirm the national commitment to a Federal retirement program and offer a viable means for resolving the short-term financial problems.

The latter is accomplished by including a series of painful concessions which do not fall disproportionately on any group. For example, liberals who oppose the COLA deferral are asked to accept the package as are conservatives who oppose the new taxes. We endorse the National Commission's report.

While generally endorsing the Commission's proposals, there are nevertheless provisions which are of concern to us. One of the most important recommendations is that beginning with 1984, 50 percent of OASDI benefits be considered as taxable income for single people with an adjusted gross income of $20,000, and married people with an adjusted gross income of $25,000.

We have several problems with this position. The taxing of benefits would violate an unwritten agreement with beneficiaries whose retirement plan includes tax free social security benefits. While it is true that only half of the benefits would be taxed, once this proposal is enacted, a precedent has been set and the taxation of all benefits would become a viable future option.

The taxation provision would also severely penalize older people who wish to remarry. For example, while an unrelated man or woman, each earning $17,500, would not have to pay taxes on social security, they would be required to do so if they married.

Another problem with taxing benefits is the "notching" issue. Individuals and couples with an adjusted gross income of just under $20,000/$25,000, because their OSDI benefit would not be taxed, would end up with higher income than those slightly above those figures.

The National Commission was aware of the "notching" problem and suggested in its report that it would be rectified in the legislative process. However, we cannot be as optimistic since the same situation exists in other programs, such as unemployment insurance benefits.

If the taxation principle is maintained, we recommend that it be tied to an appropriate index. This would help assure that only those who can most afford it will have their benefits taxed. Moreover, current retirees could be exempt from this provision, and in order to maintain the expectation of those already retired and those about to retire, it could be gradually phased in.

The National Commission recommendation that the cost-of-living adjustment should, beginning in 1983, be paid in January instead of July is also a subject of concern to our organizations. Delay in the COLA would mean a reduction in benefits for our elderly, many of whom are dependent on social security for the bulk of their income.

With average social security retirement benefits now equaling but 42 percent of average previous wages, any decline in them would further exacerbate the already difficult problems of the elderly poor. The proposed COLA deferral would cost the average single retiree $132 in 1983 and $1,100 from 1983 to 1989. For a couple, the figures are $220 and $1,800.

Especially hard hit would be those in the lowest income brackets, frequently women, some of whom might be pushed into poverty or deeper into poverty.

Related to this discussion of a reduction in benefits is the Commission agreement that a fail-safe mechanism is necessary so that benefits could continue to be paid despite adverse conditions. Although the Commission was unable to reach agreement regarding a specific mechanism, we believe that a combination of vehicles, including floating bonds and loans from general revenues, could be viable options.

The one proposal under consideration which we would oppose would be the proposal to reduce, temporarily the benefits payable.

The Commission report includes four relatively minor recommendations relating to the issue of women's equity. Unfortunately, as is mentioned in one of the supplementary statements, the Commission did not begin to address the fundamental, although unintended, inequities that act to the disadvantage of all people except members of intact one earner couples.

Prominent among these inequities are the second earner, usually the woman, receiving little or no return on her social security taxes because as the spouse of a retired worker, she receives a larger benefit than she would based on her own work record. Another inequity is that a divorced woman fails to qualify for benefits unless the marriage lasted a minimum of 10 years.

We believe that these problems could be rectified through a more comprehensive approach, such as earnings sharing, which would allow both partners in a marriage to receive credit for earnings and quarters of coverage. By doing so, individuals not working in covered employment could establish their eligibility for social security on the basis of their spouses' work in covered employment.

Under this approach, social security credits would be apportioned by a formula that would credit each spouse with 50 percent of the couple's combined earnings.

Taking this step would have several advantages. Of major importance is that homemakers would be brought into the system in their own right instead of only being able to collect benefits as dependents. Another advantage is that nonworking spouses would be eligible for disability benefits. Also, divorced homemakers would have records they could carry with them instead of losing all rights if they were married for less than 10 years.

The Commission further noted that the 1982 trustees report predicts financial difficulties in the early 1990's. Assuming hospital costs continue to rise without an effective cost containment process, over half the expected deficits of the next century for all three trust funds can be attributed to HI.

An indepth examination is necessary to understand the specific effects of rising hospital costs on the HI funds and what changes may be appropriate. Without such an examination and national debate, the implementation of the current proposals would leave a major part of social security's needs unresolved.

Other areas that will require future consideration include changes in the retirement age, the use of general revenues to supplement the payroll tax burden and a public relations campaign to restore confidence in the social security system.

With an unemployment rate of 10.8 percent, approximately 11 million Americans and their employers are not paying social security taxes. Additionally, it is likely that some older workers who were fired or temporarily laid off decided to retire and draw social security benefits at age 62 or to apply for disability for impairments which under other conditions would not have kept them out of the work force.

We therefore urge the committee to consider the direct relationship between high unemployment and social security's financial problems. While inflation has fallen dramatically in the last few years, it has, unfortunately, been accompanied by a dramatic increase in unemployment.

Full employment, even under the current low aspiration administration definition of 6.25 percent, would represent an effective mechanism in reducing the social security deficit. Returning 4 million to 5 million workers to jobs would significantly reduce the projected deficit.

For the following reasons, the next few months will provide an unusual opportunity to enact legislation aimed at insuring the continued viability of social security and maintaining confidence in the system. There now is a considerable public awareness and concern. The short term problems are nearing the point where failure to act will lead to a breakdown in the system.

The midterm congressional elections are behind us and the recommendations of the National Commission on Social Security Reform have focused the debate.

Unfortunately, the social security issue has become somewhat confused because of the widespread demand for "reform" by people and groups for whom the term has very different meanings. For example, for those who believe social security must keep people out of poverty, reform holds one meaning; for those whose basic interest is insuring that social security does not discourage savings and capital formation, it holds quite another.

Since all options under consideration augur positive and negative consequences, we fear that the U.S. Congress will most likely be tempted to enact marginal changes. In taking this course, it would sacrifice an unusual opportunity to institute the appropriate adjustments. Moreover, as Federal budget deficits continue to grow, the temptation to view social security as part of this problem will increase.

Because of its aging population, the Jewish community has a special interest in this subject, which affects Americans across the board. By working for the development of a consensus on what steps must be taken to resolve social security's difficulties, we hope to avoid the reappearance of newspaper headlines similar to the one from last April's Washington Post, "Social Security Outlook Deteriorates."

[The prepared statement follows:]

STATEMENT OF FLORENCE GALKIN ON BEHALF OF THE AMERICAN JEWISH CONGRESS AND THE AMERICAN JEWISH COMMITTEE

The American Jewish Congress and the American Jewish Committee welcome the opportunity to present their views on the compromise package presented by the National Commission on Social Security Reform. For the last few years, bringing about improvements in the Social Security system has been among our top domestic priorities.

The American Jewish Committee, a 75-year old national human relations agency, with a membership of over 40,000, researches and analyzes social policy issues that impact on Jews and safeguard America's pluralist society. With the 1971 publication of "The Invisible Jewish Poor" by Ann Wolfe, the American Jewish Committee called attention to the relationship between age and poverty in the Jewish community. The recognition of the importance of aging issues and the organization's general concern for the preservation of a just society, dedicated to meeting the needs of all Americans so that groups need not compete with one another for the essentials of life, provide the basis for the American Jewish Committee's commitment to a strong and stable Social Security system.

The American Jewish Congress is a membership organization of American Jews founded in 1918 to protect the religious, political and economic rights of Jews and to promote the principles of democracy. American Jewish Congress work in the Social Security area has included testifying before legislative and executive bodies, sponsoring an information and referral service to increase the awareness of the elderly about benefits to which they are entitled and publishing information regarding public policy issues that require action. Additionally, at the request of the Social Security Administration, we have translated their documents into Yiddish and aided in the distribution of these pamphlets describing the Supplemental Security Income (SSI) program.

BACKGROUND

Our concern for the stability of the Social Security system is based on both practical and philosophical grounds. The Jewish community is an aging community that demographically reflects the characteristics of the general population—only at a faster pace. Tied to the high proportion of aged, is the accompanying level of poverty, especially among women living alone.

Philosophically, we believe the Social Security system is the most effective protection against poverty among the aged. Rather than pit young against old, as some people have claimed, it actually helps middle-aged workers by insuring their parents' financial security. Its universal character eliminates the stigmatization associated with means-tested welfare programs and reflects an important communal value that the currently productive members of society have a responsibility for taking care of those who are unable to produce due to age or disability.

PROFILE OF AN AGING JEWISH COMMUNITY

The Jewish community in the United States is aging far more rapidly than the general population. Whereas 28 percent of the national population was under age 15 in 1970, only 23 percent of the Jewish population was in this category. Yet, the general population had only 10 percent over the age of 65 compared to 12 percent of the Jewish population that same year.[1] That trend has continued.

A recent study of the Jewish population of greater New York, conducted by the Federation of Jewish Philanthropies, found that 30 percent of the Jews in the New York area are 55 or older compared to 20.8 percent in the total U.S. population or compared to 22.5 percent in the New York State population. On the other hand, only 15 percent of New York area Jews are under 15 years of age, compared to 22 percent in the total U.S. population or 21.2 percent in New York State. In Dade County, Florida, the percentage of Jews over 65 is 35.6 percent compared to 16 percent of the general population.[2]

The median age for Jews in the New York area is 40. For the general population in New York State, the median age is 32 and the median age of the total U.S. population is 30. The difference is even more striking if we look at Dade County, where the median age of the general population is 35 compared to the Jewish median age of 54. In Miami Beach, the Jewish median age jumps drastically to 67.

Because of its lower fertility and its higher proportion of individuals in the middle-age group, the Jewish population can be expected to become even older. According to Sidney Goldstein, a demographer who has been studying the Jewish community for many years, studies indicate the possibility of a 40 percent increase in the number of aged from the 1971 count to the projected 1990 estimate.[3]

In the New York area, 10 percent of the Jewish households with a person over age 65 have incomes of less than $5,000. This rises to 25 percent when we include incomes up to $10,000. More significantly, 67 percent of the one-person households have incomes of less than $5,000. These households are almost entirely women living alone.

In Miami, the reality of poverty among the aged is stark. According to 1980 figures given by the Dade County United Way, the 11,500 persons living alone in South Beach—the original area of settlement where most low-income elderly, the majority of them Jewish, live today—are almost totally dependent on Social Security income. For low income Jews in other areas as well, Social Security is the largest part of their annual income.

NATIONAL COMMISSION RECOMMENDATIONS

The National Commission on Social Security Reform, recommending a compromise proposal to resolve the financing problems of the Old-Age, Survivors and Disability Insurance Trust Funds (OASDI), has demonstrated that with good will and good sense the democratic system can be made to work.

Unanimous agreement was reached on the following issues:

Congress should not alter the fundamental structure of the Social Security program or undermine its fundamental principles.

For purposes of considering the short-range financial status of the OASDI Trust Funds, $150–200 billion in either additional income or in decreased outgo (or a combination of both) should be provided for the OASDI Trust Funds in calendar years 1983–89.

For purposes of considering the long-range financial status of the OASDI Trust Funds, its actuarial imbalance for the 75-year valuation period is an average of 1.80 percent of taxable payroll.

In addition, a "consensus" package of specific proposals was agreed to by 12 of the 15 members of the Commission. The key provisions include: revising the tax-rate schedule to increase payroll taxes earlier than currently scheduled; shifting COLAs to a calendar-year basis; requiring universal coverage; and taxing benefits of higher-income persons.

Other provisions include: permanently allowing inter-fund borrowing; basing COLA increases on the lower of CPI or wages instead of automatically on wages; increasing the delayed retirement credit; and several provisions that deal with gender-based discrimination. A majority of the members of the National Commission recommended that two public members be added to the Board of Trustees of the OASDI Trust Funds; the operations of all the Trust Funds be removed from the unified budget; and, in principle, the Social Security Administration be set up as an independent agency. There was no agreement on the raising of the retirement age or the resolution of the financing problems of the Medicare program.

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[1] Sidney Goldstein, "Jews in the United States: Perspectives from Demography," *American Jewish Year Book*, Vol. 81, 1981, p. 44.

[2] From data collected by the Greater Miami Jewish Federation.

[3] Goldstein "Jews in the United States" *op. cit.*, p. 46.

COMMENTS ON CONSENSUS PACKAGE

In principle, the Commission's recommendations, which include a menu of diverse proposals, merit support. We take this position in spite of the fact that we are concerned with several components of the Commission's package.

The Commission's proposals are a compromise. We agree with President Reagan's January 15th statement that they contain "elements which each of us could not support if they were not part of a bipartisan" agreement. As a compromise package, no group, including American Jewish Congress and American Jewish Committee, achieved the inclusion of all of its positions in the Commission's final recommendations.

What is important is that the Commission's proposals affirm the national commitment to a federal retirement program and offer a viable means for resolving the short-term financial problems. The latter is accomplished by including a series of painful concessions which do not fall disproportionately on any group. For example, liberals who oppose the COLA deferral are asked to accept the package as are conservatives who oppose the new taxes.

Moreover, by insuring short-term solvency, the Commission buys time which will better enable us to plan for long-term needs. This is important since it will allow us to make more accurate projections about future income and expenses.[4]

While generally endorsing the Commission's proposals, we are especially pleased with several of them. These include moving the 1985 tax rate to 1984,[5] increasing from $20 to $50 the disregard of OASDI benefits for purposes of determining eligibility for Supplemental Security Income (SSI), removing Social Security from the unified budget and making a lump sum payment to the OASDI Trust Funds for the amount of uncashed checks.

At the same time, there are Commission provisions which are of concern to us in principle. One of the most important of them is the recommendation that beginning with 1984, 50 percent of OASDI benefits would be considered as taxable income for single people with an adjusted gross income of $20,000 and married people with an adjusted gross income of $25,000.

We have several problems with this provision. The taxing of benefits would violate an unwritten agreement with beneficiaries whose retirement plans include tax-free Social Security benefits. While it is true that only half of the benefits would be taxed under the Commission's proposal, once this proposal is enacted a precedent has been set. Taxation of all benefits would become a viable option for future legislation.

The taxation provision would also severely penalize older people who wish to remarry. For example, while an unrelated man and woman, each earning $17,500, would not have to pay taxes on Social Security, they would be required to do so if they married.

We are also unclear as to the rationale for the $20/$25,000 trigger. Although these figures cover under fifteen percent of Social Security beneficiaries, the elderly have special expenses in the area of medical care. Additionally, Social Security beneficiaries are increasingly likely to still have young dependents if they begin their families at a later age and their children may still be enrolled in higher education. These factors should be carefully considered.

Another problem with taxing benefits is the "notching" issue. Individuals and couples with adjusted gross income of just under $20/$25,000, because their OASDI benefits would not be taxed, would end up with higher incomes than those slightly above those figures. The National Commission was aware of the notching problem and suggests in its Report that "it will be rectified in the legislative process." However, we cannot be as optimistic since the same situation exists in other programs such as unemployment insurance benefits.[6]

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[4] The reader will understand the difficulty in making accurate projections regarding retirees and benefits since the actual numbers depend not only on fertility, but on mortality, divorce, inflation, labor force participation, unemployment, retirement patterns, earnings, disability incidence and duration, productivity and new immigration. For example, a doubling of new immigrants could lead to the elimination of up to one-third of our long-term problem. One result of the aforementioned is that some have suggested that it is unwise to forecast so far into the future about matters of which we are so uncertain.

[5] The use of a tax credit to offset the increase is important to employees. Its extension beyond 1984 should be considered.

If the taxation principle is maintained, we recommend that it be tied to an appropriate index. This would help assure that only those who can most afford it will have their benefits taxed. Moreover, current retirees could be exempt from this provision and, in order to maintain the expectations of those already retired and those about to retire, it could be gradually phased in.

The National Commission recommendation that the cost-of-living adjustment should, beginning in 1983, be paid in January, instead of July, is also a subject of concern to our organizations. Delay in the COLA would mean a reduction in benefits for our elderly, many of whom are dependent on Social Security for the bulk of their income.

With average Social Security retirement benefits now equaling but 42 percent of average previous wages, any decline in them would further exacerbate the already difficult problems of the elderly poor. The proposed COLA deferral would cost the average single retiree $132 in 1983 and $1,100 from 1983–1989 (for a couple, the figures are $220 and $1,800). Especially hard hit would be those in the lowest income brackets, frequently women, some of whom might be pushed into poverty or deeper into poverty.[7]

Related to this discussion of a reduction in benefits is the Commission agreement that a "fail-safe mechanism is necessary so that benefits could continue to be paid despite adverse conditions." Although the Commission was unable to reach agreement regarding a specific mechanism, we believe that a combination of vehicles, including floating bonds and loans from general revenues, could be viable options. The one proposal under consideration which we would oppose "would be to reduce, temporarily, the benefits payable."

The Commission Report includes four relatively minor recommendations relating to the issue of women's equity. Unfortunately, as is mentioned in one of the supplementary statements, the Commission did not "begin to address the fundamental, though unintended, inequities, that act to the disadvantage of all people except members of intact one-earner couples." Prominent among these inequities are the second earner, usually the woman, receiving little or no return on her Social Security taxes, because as the spouse of a retired worker, she receives a larger benefit than would be based on her own work record. Another inequity is that a divorced woman fails to qualify for benefits unless the marriage lasted a minimum of ten years.

We believe that these problems could be rectified through a more comprehensive approach, such as earning-sharing, which would allow both partners in a marriage to receive credit for earnings and quarters of coverage. By doing so, individuals not working in covered employment could establish their eligibility for Social Security on the basis of the spouses' work in covered employment. Under this approach, Social Security credits would be apportioned by a formula that would credit each spouse with 50 percent of the couple's combined earnings.

Taking this step would have several advantages. Of major importance is that homemakers would be brought into the system in their own right, instead of only being able to collect benefits as dependents. Another advantage is that non-working spouses would be eligible for disability benefits. Also, divorced homemakers would have records they could carry with them instead of losing all rights if they were married for less than ten years.

The Commission further noted that the 1982 HI Trustees Report predicts financial difficulties in the early 1990s. Assuming hospital costs continue to rise without an effective cost-containment process, over half the expected deficits of the next century for all three trust funds can be attributed to HI.

An in-depth examination is necessary to understand the specific effects of rising hospital costs on the HI funds and what changes maybe appropriate. Without such an examination and national bebate, the implementation of the current proposals would leave a major part of Social Security's needs unresolved.

Other areas that will require future consideration include changes in the retirement age, the use of general revenues to supplement the payroll-tax burden and a public relations campaign to restore confidence in the Social Security system.

With an unemployment rate of 10.8 percent, approximately 11 million Americans and their employers are not paying Social Security taxes. Additionally, it is likely that some older workers who were fired or temporarily laid off decided to retire and draw Social Security benefits at age 62 or, to apply for disability for impairments which, under other conditions, would not have kept them out of the work force.

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[6] Similarly, in some cases, individuals receiving public assistance, which entitles them to medicaid, are better off financially than low-income workers who lack health coverage.

[7] These assume an inflation rate of 5.3 percent and average monthly benefits of $416 for a single person and $700 for a couple.

We therefore urge the Committee to consider the direct relationship between high unemployment and inflation and Social Security's financial problems. While inflation has fallen dramatically in the last few years, it has, unfortunately, been accompanied by a dramatic increase in unemployment. Full employment, even under the current low-aspiration Administration definition of 6¼ percent, would represent an effective mechanism in reducing the Social Security deficit. Returning 4-5 million workers to jobs would significantly reduced the projected deficit.

CONCLUSION

For the following reasons, the next few months will provide an unusual opportunity to enact legislation aimed at insuring the continued viability of Social Security and maintaining confidence in the system: there now is a considerable public awareness and concern; the short-term problems are nearing the point where failure to act will lead to a breakdown in the system; the midterm Congressional elections are behind us; and the recommendations of the National Commission on Social Security Reform have focused the debate.

Unfortunately, the Social Security issue has become somewhat confused because of the widespread demand for "reform" by people and groups for whom that term had very different meanings. For example, for those who believe Social Security must keep people out of poverty, reform holds one meaning; for those whose basic interest is insuring that Social Security does not discourage savings and capital formation, it holds quite another.

Since all options under consideration augur positive and negative consequences, we fear that the U.S. Congress will most likely be tempted to enact marginal changes. In taking this course, it would sacrifice an unusual opportunity to institute the appropriate adjustments. Moreover, as federal budget deficits continue to grow, the temptation to view Social Security as part of this problem will increase.

Because of its aging population, the Jewish community has a special interest in this subject, which affects Americans across the board. By working for the development of a consensus on what steps must be taken to resolve Social Security's difficulties, we hope to avoid the reappearance of newspaper headlines similar to the one from last April's Washington Post: "Social Security Outlook Deteriorates," [8]

Chairman **Pickle**. Thank you, Ms. Galkin. I want to thank each one of the panel. I am glad you kept on schedule and I hope you will not fear that we are not willing to go into greater detail. We are. But you have certainly made your points. I want to ask two or three questions of you.

Ms. Galkin, I like your overall statement. I noticed in the last point you made you said the fail safe is a good idea, that whatever our figures show, that on a short-term basis, we will say, as well as long term, we ought to have a fail safe.

Now, with respect to the short term, if there is a recommendation in this decade, do you have a recommendation for which fail safe, how we would go about it?

Mr. **Austin**. We have not adopted an official position. We have discussed, obviously, that a fail safe has to come from one of three ways: Either reduced benefits, increased taxes, or going to some other source of revenue. We feel strongly, as I have stated before, that general revenues should be avoided. Thus the fail safe has to come by some combination of the other two.

Our basic point is that, at least on a short-range basis, we should be looking at slowing down the increase in benefits, not reducing benefits but slowing down the increase in benefits as a fail safe step.

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[8] Barry Sussman and Lawrence Meyer, "Social Security Outlook Deteriorates," Washington Post, Apr. 2, 1982.

Chairman PICKLE. I met with a group of Democrats this last Saturday in what we called our national issue conference, and in the course of the conference, we came up with a question about the fail safe device. We looked at some three or four approaches and we tried to get a show of hands about who agreed on which particular route to take.

I noticed you didn't recommend any one specifically, and of the group we had in front of us, they were almost unanimously silent about which one to recommend. It may be one of the first problems we have, but I appreciate your statement about it. I don't know how we are going to handle it, but that may be one of the problems we have.

Mr. Gregg, I noticed that you make recommendations about the COLA and the question of the continuing interfund borrowing, and generally it follows the outline, but neither you nor Mr. Austin, when you said we ought to take care of the long term, made any recommendations about slowing the growth of benefits. The public generally thinks it is a choice either to raise taxes or to raise the age.

Now, one of the alternatives that has been mentioned by the Commission and others is to slow the growth of benefits. Do either of you feel that that is an equally undesirable choice or option?

Mr. GREGG. Mr. Chairman, last year, I believe, you introduced legislation yourself to implement the age question, and you are far more knowledgeable about that than I am. However, it seems to us as an association that over the years this must be done if the viability of the program is to be protected, and just how, a percentage point, by the month, or whatever it might be, this is a question that the Congress will undoubtedly address.

But historically NALU has maintained that over the long run it must be done.

Mr. AUSTIN. In the longer statement we talked about this lowering of prices or wages, which is, of course, in the recommendation. That has been one of our alternatives, frankly, in the past years. The position which we did not try to repeat here because it did not seem to be germane was that we might adopt the CPI minus 3 percent, the rationale being that if the CPI goes up less than 3 percent, there is no increase under present law; so this would seem to be a logical thing.

I have an uneasy feeling, Mr. Chairman, that if we adopt either wages or prices or some percentage from them, that 10 years from now there will be groups sitting here wishing we had done something else. In other words, as you know, 10 years ago we thought that the lowering of wages or prices was the right way to go. I would assume if we had gone with wages at that time we probably wouldn't be here today.

Chairman PICKLE. Well, the Commission is recommending either wages or prices.

Mr. AUSTIN. I understand, and we sort of go along with that, and I am not sure but perhaps it might be minus some small percentage to take into account the deviations. But at this point in time we have endorsed the wages or prices.

Chairman PICKLE. Now lastly, Ms. Galkin, I want to make the observation that you have made a good point here when you said that you believe the taxing of benefits would violate a fundamental agreement or understanding we have had in the operation of this whole program for years, and that you are afraid that if we kept in there taxing benefits at the $20,000, $25,000 level that that could lead to the taxing of all benefits.

I think that is a red flag and should be raised and we ought to be mindful of that because I think we should be concerned that that not be the case because it would lead ultimately to the taxing of all benefits. Certainly one of you made the point that we ought to be careful about this refundable credit, that it could lead to the taxing of all benefits because if you give a credit, the assumption is you are going to tax it at the end, and once you establish the principle of refundable tax credit, you almost put into motion the possibility that you eventually will tax all benefits.

I don't think we want that, but that is something we have got to be careful that what we are trying to do is handle a problem at this point and not trying to establish a long-reaching principle of that nature.

Mr. Shannon.

Mr. SHANNON. No questions, Mr. Chairman. I just want to thank the panel for being here.

Chairman PICKLE. Mr. Matsui.

Mr. MATSUI. I have no questions, but I do want to thank the panel as well.

Chairman PICKLE. I thank all three of you now again. Submit any other statements if you want to in addition.

Mr. Bookbinder, we are glad to have you with us this morning. You always grace any audience, or you add to the appearance of any audience. We are glad you are here.

Thank you all very much.

Our next panel will consist of Mr. Moe Biller, Mr. Vincent Sombrotto, Mr. James Peirce, and Mr. Robert L. White.

Gentlemen, we are glad to have you with us this morning. Our first witness will be Mr. Moe Biller, the president of the American Postal Workers Union, the AFL-CIO, and then Mr. Sombrotto is president of the National Association of Letter Carriers. Mr. James Peirce is president of the National Federation of Federal Employees, and Mr. Robert L. White is the national president of the National Alliance of Postal and Federal Employees.

We will start, then, Mr. Biller, with your testimony since you are first on the list, and we will proceed down the line and each one of you make your statements.

We say again to you that your entire statement will be included in the record today.

STATEMENT OF MOE BILLER, PRESIDENT, AMERICAN POSTAL WORKERS UNION, AFL-CIO

Mr. BILLER. Thank you, Mr. Chairman.

I am Moe Biller, president of the American Postal Workers Union, 320,000 members, the largest in the world. I appreciate the opportunity.

Chairman PICKLE. Mr. Biller, we would ask you to pull that microphone right up next to you.

Mr. **Biller**. We appreciate the opportunity to express the views and concerns of our membership on this very critical issue. The social security system is central to our national well being and of fundamental importance to retired persons.

Members of the American Postal Workers Union, like most Americans, strongly support efforts to solve the social security funding problem. Every one of our members have family members, relatives or friends who must rely on the social security system. This gives us a vested interest in saving the social security system.

We are, however, most distressed by recent suggestions that part of the social security problem must be solved at the expense of Federal and postal workers. The National Commission on Social Security Reform's proposals recommending the inclusion of new Federal and postal workers in social security has been made with little or no regard to the effects such a move would have on the civil service retirement system and the millions of workers who have contributed to and depend on this system.

Any extension of social security coverage to include these people threatens the financial stability of the civil service retirement system and jeopardizes the retirement benefits of our current and future workers. The social security Commission paid little attention to the effects of their proposal on the retirement system, a program which has been around since 1920.

They did not examine the impact of their actions on the Federal budget. They did not concern themselves with the promised retirement rights of current Federal and postal workers. They did not consider the need for supplemental pensions for workers they proposed to bring under social security.

In short, the Commission has made a proposal without any knowledge of what their recommendation would do to the unified Federal budget or the retirement benefits of current civil service retirees, Federal and postal workers and future employees. Rightly or wrongly, the Social Security Reform Commission did not consider these issues to be their business.

Now we are presented with a Commission package and told that the committee intends to move the package as is. Mr. Chairman, the Commission may not have considered the impact on the retirement system its business, but this committee and the Congress must consider it their business. I submit it is the business of the Congress to fully consider the impact of its actions before it passes legislation.

I am appalled that the leadership of this Congress and the members of the committee are so anxious to railroad this package through without any change, that you are willing to ignore the impact of your actions on 5 million workers, retirees and survivors who depend on the civil service retirement system for their livelihood in their old age.

To take this action without fully understanding its ramifications is irresponsible and a violation of the trust that the voters place in their elected representatives to educate themselves and to know what they are doing when legislation is passed.

I understand, Mr. Chairman, that the committee wants to solve the social security problem as quickly as possible. We share that desire. However, I am at a loss to understand why you are willing to act so precipitously and unwisely with regard to civil service when the proposal to place new Federal and postal workers under social security will do little or nothing to solve the problem.

In November 1982 the Commission published a document saying that the savings to social security over the period from 1984 to 1989 from coverage of new Federal and postal and nonprofit employes would be $21 billion. My staff called the Commission to find out how much of that was derived from coverage of new Federal and postal workers. We were told that no separate breakdown of these figures existed.

This has caused us to go to great expense ourselves and get consultants on the entire matter. After a while when another call was made, we were told that the figure was now $11.7 billion, that it was attributable to new Federal and postal workers. Because of the disparity in these figures, we went again to independent consultants to analyze the issue.

I don't know why the Commission has based this momentous decision on such loose estimates. Our analysts, using data from the Office of Personnel Management, have found that the total revenue to the social security trust fund which would be derived from new Federal and postal employees over the 6 year period is only $2.3 billion with an equal matching by the Federal Government or the agency, for a 6 year shortfall in social security of $150 billion to $200 billion. This adds up to approximately 2 percent.

I call your attention to table 1 of my written statement on page 5, which provides the assumptions for our conclusion that the new Federal workers would contribute only $2.3 billion, and particularly at a time when we have a freeze on Federal employment.

The real solution to the social security crisis is to put America back to work. It is clear that much of the current shorfall has been caused by the Reagan depression. For every 1 percent increase in unemployment, the social security trust fund is decreased by more than $2 billion a year. The way to increase social security revenue is to increase employment.

My written statement goes into considerable detail on the civil service retirement and its impact. I have submitted by full testimony along with supportive material for the record. Briefly I would like to summarize my major points in the short time allotted me.

Incidentally, I believe the scheduling of only 4 days of testimony to hear from the public on such an important issue and squeezing in 87 witnesses, giving each only 5 minutes to testify, kind of makes a mockery of the supposed deliberative process of the Congress of the United States. Nevertheless, these are rules and we comply.

Unlike social security, the civil service system is sound according to actuarial reports, and they are well documented here. I note that the staff of the Commission presented testimony last week disputing the need to fully fund the civil service retirement system if it becomes a closed system. I found these arguments lacking in objectivity and the concern for the well being of Federal and postal retirees.

I want to submit to the committee, Mr. Chairman, for the hearing record a point by point rebuttal of the advisory memorandum dated January 31 and circulated by the Commission staff. Our rebuttal, which I will now send to the Chair, was prepared by our consultants, Chambers Associates, Inc. Many of you are familiar with Jim Storey, who has worked for people in this area on this subject a long time, and I have this if you want me to bring it up.

Mr. **Shannon**. It will be submitted for the record, Mr. Biller.

[The material referred to follows:]

HOW THE CIVIL SERVICE RETIREMENT SYSTEM COMPARES WITH PRIVATE SECTOR RETIREMENT ARRANGEMENTS [1]

The debate over the Greenspan Commission's proposal to extend Social Security coverage to new Federal hires and the Reagan budget proposals to reduce Civil Service retirement benefits has led to unfair criticism of the Civil Service Retirement System (CSRS) by some advocates of these proposals. Generally, these criticisms result from inappropriate comparisons of CSRS with private sector pension plans.

The following point-by-point discussion identifies these criticisms of CSRS and offers a factual explanation based on a fair comparison of CSRS with private sector pension arrangements.

Criticism.—Federal employees should pay into Social Security just like most other workers do.

Fact.—In the private sector, the typical employee is covered by Social Security and a private pension plan. The employee pays 5.4 percent of wages, up to a ceiling, into the Social Security retirement, survivors and disability fund. Usually, the employee makes no contribution for his or her pension if it is a defined benefit plan. Thus, the most common arrangement requires a private sector employee to pay at most 5.4 percent of wages.

Federal workers, on the other hand, have their retirement needs combined under one system, a system that predates enactment of Social Security. The employee pays in 7.0 percent of the full amount of wages. This means that each Federal employee is paying at least 1.6 percent more in salary for retirement than is the typical private sector employee.

Federal and postal workers are paying for their own retirement security just as private sector employees are and, in fact, are typically paying more. The CSRS is simply an alternative arrangement to provide for retirement that was created before Social Security existed and before most private sector plans were established. This alternative arrangement is just that—it is not a scheme for Federal employees to avoid payroll taxes.

Criticism.—The unfunded liability in CSRS of over $500 billion presents a terrible burden for future taxpayers.

Fact.—Social Security, CSRS and most state/local employee pension plans operate on a pay-as-you-go basis. Whereas business firms may not continue to operate over the entire lifetime of its workforce, the presumption is that governments will still be around to pay pensions when current workers retire. Thus, there is no need to accumulate funds in public plans sufficient to meet all future obligations. Indeed, many financial experts argue that such massive fund accumulations by governments would be unwise.

Thus, all pay-as-you-go plans have large unfunded liabilities. Arrangements are made to provide funds each year that will meet current benefit obligations, with some reserve to protect against unexpected shifts in cash flow. The CSRS funding formula has built up a reserve equal to 5 years of benefits, and the long-range actuarial projections show a healthy balance between revenues and expenditures.

Although advance funding of private pension obligations does make sense, in fact most private defined benefit plans do have unfunded liabilities. These liabilities are in the process of being amortized under Federal standards adopted in 1974. However, a 1981 Johnson and Higgins survey of 554 large plans found that 42 percent had assets less than vested liabilities. Funds covered only 70 percent of vested liabilities in the shipbuilding, railroad, and transportation equipment firms.

Criticism.—The share of CSRS funding drawn from general revenues is excessive.

Fact.—Like Social Security and most state and local government pension systems, the Civil Service Retirement System (CSRS) is a pay-as-you-go system that accumulates a reserve sufficient to assure continuity in benefit payments as fluctuations occur in annual revenues and outlays. The revenues for CSRS are determined based on laws passed by Congress over the years, and they have yielded a healthy reserve sufficient to cover 5 years' worth of benefit payments.

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[1] Prepared by James R. Storey, Chambers Associates.

CSRS revenues come from four sources: (1) employee contributions of 7.0 percent of wages; (2) matching agency contributions; (3) interest earned on the CSRS fund's assets; and (4) a general revenue payment to the fund based on a statutory formula. The bulk of this latter payment is calculated as the interest on the future liabilities of CSRS that the present fund cannot cover. The general revenue payment to the CSRS fund was 46 percent of total CSRS revenues in fiscal year 1982.

While this transfer of general revenues seems large—it is nearly half the total annual CSRS income—it is not out of line when compared with Federal subsidization of private sector retirement plans. Employer contributions to pension plans and the employer's Social Security payroll taxes are tax deductible expenses. The earnings on pension fund assets go untaxed in the year earned. Also, 401(k) salary reduction plans are excluded from taxation. These various tax subsidies of Social Security and private sector pensions will cost the Federal Government about $100 billion this fiscal year, an amount that is seven times the level of the general fund transfer to CSRS. Thus, support of pensions from Federal funds, whether through direct transfers or indirect tax subsidies, is substantial in both the public and private sectors.

Criticism.—The cost of CSRS pensions as a percent of wages is excessive.

Fact.—A recent Washington Post editorial ("Facts About Federal Pensions," February 7, 1983) stated that the long-term cost of CSRS pensions is estimated to be nearly 37 percent of payroll, while the sum of Social Security taxes and pension contributions "run in the range of 22 to 25 percent of payroll" in Fortune 500 companies. However, pension costs cannot be judged in a vacuum but must be considered as part of the total employee compensation (wages, pension credits, health benefits, life insurance, disability insurance, sick leave, paid vacation, etc.). While federal pension costs may be higher than the average for private firms, large comporations will often pay higher salaries for certain jobs and private health benefits are often more generous.

A comprehensive federal versus private sector compariosn of total compensation, a methodologically difficult undertaking, would probably conclude that total Federal compensation is better than private for some employees but worse for others (especially at the executive level). However, the official government pay-setting procedure has found that Federal pay is now lagging behind comparable private sector pay by 14.5 percent, and a 1982 Mercer survey of health plans found Federal benefits lagging behind the private plans studied.

The greater cost of Federal pensions reflects two facts. First, increases in Federal wage levels have always been very sensitive politically while pension liberalizations were not so controversial until recently. Consequently, compensation gains in the pension area were easier for workers to obtain. Second, cost-of-living adjustments under CSRS are set by law and therefore are part of the long-range cost estimate. Private plans are more likely to make such increases on an ad hoc basis and thus do not count future benefit increases as present obligations of the plan.

Criticism.—CSRS benefit levels are too high compared to benefits under private pension plans.

Fact.—CSRS may appear generous if the system is compared to the full range of private plans. However, such a comparison to a universe of hundreds of thousands of plans reflecting the labor conditions and business circumstances of the whole spectum of American firms is unreasonable. Benefits for federal employees are properly compared to those for their counterparts in the large corporations that have similar organizational and personnel needs.

A January 1983 study by pension experts of ICF Inc. ("Analysis of Proposed Changes to the Federal Civil Service Retirement System: Effects on Retirement Benefits") compared CSRS to pension benefits available from three large corporate plans (GM, IBM, and AT&T). The study concluded that "all three of the large pension programs . . . provide, at most ages after retirement and under most economic scenarios, comparable or more generous benefits than the CSRS." For example, a 65-year-old who had retired at age 60 with 30 years of service would have benefits under CSRS that replace 89 percent of final wages. The replacement rates for the same individual under the three corporate plans (plus Social Security) would be 80 percent (IBM), 83 percent (AT&T), and 96 percent (GM).

Criticism.—Early retirement provisions under CSRS are more generous than is the case under private pension plans.

Fact.—The CSRS permits employees with 30 years of service to retire at age 55. This age is the earliest at which a CSRS retirement annuity can be paid generally. Exceptions are sometimes made such as in agencies where jobs are being eliminated. The proportion of after-tax wages replaced by an annuity at age 55 with 30 years of service is 66 percent. At age 65 with 30 years, the replacement rate is 83 percent. The method of benefit calculation contains a financial incentive to retire early, because the benefit reduction for early retirement is less than what an actuarially neutral rate would produce. That is, drawing a smaller benefit for more years will maximize the lifetime income of the average CSRS annuitant.

Private defined benefit plans, especially those of large corporations, generally have similar rules for early retirement. An Urban Institute study of plan rules found that virtually all the more than 1,000 plans studied allowed early retirement, with age-55 retirement permitted by 83 percent of the plans. The study found that, like CSRS, most early retirement provisions have been designed to financially encourage early retirement. Only one in seven plans was actuarially neutral on retirement age. During periods of economic recession such as the present, private plans often liberalize their provisions for early retirement temporarily to avoid layoffs of younger employees.

The most important difference in early retirement rules for federal versus private workers is that Social Security early retirement does not begin until age 62. That means that a large part of the total private sector retirement benefit is not available at age 55. To compensate workers who want to retire early, some private plans have been designed such that a higher benefit is paid before age 62 and a lower benefit is paid after Social Security entitlement begins. For example, the GM plan replaces 71 percent of aftertax wages when a 30-year employee retires at age 55. In contrast, the AT&T and IBM plans replace only 46 and 33 percent, respectively.

Criticism.—CSRS is virtually the only pension plan with benefits adjusted fully for cost-of-living increases.

Fact.—The federal government has moved over the years to adjust benefits automatically to offset inflation in a variety of programs: CSRS, military retired pay, railroad retirement, Social Security, Veterans' benefits, supplemental security income (SSI), food stamps, and child nutrition programs. This "indexing" replaced a time-consuming, haphazard Congressional process of making ad hoc benefit adjustments in each program every year or two. The purpose, of course, is to maintain real living standards for groups of people who have to live for long time periods on fixed incomes due to disability, old age or survivorship.

The federal government can bear this risk of inflation because of its immense taxing and borrowing authority. Individual private firms cannot promise to bear a risk as great as that posed by the uncertain path of inflation rates. The inability of private pension plans to hold pensioners harmless against inflation has come to be recognized as a major weakness in the overall structure of retirement income provision in the U.S., and numerous studies have considered the consequences for living standards in old age and how the problem might be rectified.

A good many private pension plans do make ad hoc adjustments in benefits. A Bankers Trust study of 325 major plans found that 70 percent had made at least one such adjustment during the 1975–1979 period. However, these adjustments generally did not keep pace with the rapid price increases of those years.

Solutions to this problem have been suggested, such as issuance of indexed bonds by the government to pension funds. Some resolution is needed if workers and their families must continue to rely on private pensions for a major part of their income in old age. To suggest that indexed government benefits are somehow over-compensating beneficiaries is not a solution. Cutting back on benefit indexing in the public sector would only add to a serious social problem.

Mr. SHANNON. Mr. Biller, if you could summarize, please. You have gone a couple of minutes over.

Mr. BILLER. Yes, thank you. To tell the truth, I am not sure I even touched the Commission's figures of an average of savings of 0.28 percent payroll, or all of the figures that they go into. The financial data argues strongly against placing new Federal and postal employees under social security.

In the next 6 years, the revenue to social security collected from us would be $2.3 billion, not enough to make a dent in the short fall. Trying to patch over the financial problems of the system by forcing all new Federal workers into it to pay into it is nothing more than fiscal sleight of hand. Money being transferred between budgetary——

Mr. SHANNON. Mr. Biller, you have gone 3 minutes over.

Mr. BILLER. Thank you very much, sir.

Mr. SHANNON. We will include your testimony. Thank you very much. Your full statement and other submissions will be submitted for the record.

[The prepared statement follows:]

STATEMENT OF MOE BILLER, PRESIDENT, AMERICAN POSTAL WORKERS UNION

Mr. Chairman, I am Moe Biller, President of the American Postal Workers Union, the largest postal workers union in the world. I appreciate the opportunity to express the views and concerns of the 320,000 members of the American Postal Workers Union on this critical issue.

The Social Security system is central to our national well-being and of fundamental importance to retired persons. Members of the American Postal Workers Union, like most Americans, strongly support efforts to solve the Social Security funding problem. Every one of our members has family members, relatives, or friends who must rely on the Social Security system. That gives us a vested interest in saving the Social Security system.

We are, however, most distressed by recent suggestions that part of the Social Security problem be solved at the expense of federal and postal workers. The National Commission on Social Security Reform's proposal to mandate the inclusion of new federal and postal workers in Social Security has been made with little or no regard to the effects such a move would have on the Civil Service Retirement System (CSRS) and the millions of workers who have contributed to and depend on their CSRS annuities.

Any extension of Social Security coverage to include new federal and postal workers threatens the financial stability of CSRS and jeopardizes the retirement benefits of our current and future workers. The Social Security Commission paid little attention to the effects of their proposal on the Civil Service Retirement System, a program which has been around since 1920. They did not examine the impact of their actions on the federal budget. They did not concern themselves with the promised retirement rights of current federal and postal workers and retirees. They did not consider the need for supplemental pensions for workers they propose to bring under Social Security.

In short, the Commission has made a proposal without any knowledge of what their recommendation would do to the unified federal budget or the retirement benefits of current Civil Service retirees, current federal and postal workers, and future employes of the federal government and the Postal Service.

Rightly, or wrongly, the Social Security Reform Commission did not consider these issues to be their "business." Now we are presented with a Commission "package" and told that this Committee intends to move the package as is. Mr. Chairman, the Commission may not have considered the impact on the Civil Service Retirement System its business, but this Committee and this Congress must consider it their business.

I submit to you that it is the business of the Congress to fully consider the impact of its actions before it passes legislation. I am appalled that the leadership of this Congress and the members of this Committee are so anxious to railroad this package through with out any change that you are willing to ignore the impact of your actions on the five million workers, retirees, and survivors who are depending upon the Civil Servce Retirement System for their livelihood in old age. To take this action without fully understanding its ramifications is irresponsible and a violation of the trust that voters place in their Representatives to educate themselves and to know what they are doing when legislation is passed.

Mr. Chairmen, I understand that this Committee wants to solve the Social Security problem as quickly as possible. I share that desire. However, I am at a loss to understand why you are willing to act so precipitously and unwisely with regard to Civil Service, when the proposal to place new federal and postal workers under Social Security will do little or nothing to solve the Social Security Problem.

SHORT TERM SAVINGS TO SOCIAL SECURITY

In November of 1982, the Commission published a document saying that the "savings" to Social Security over the period from 1984–1989, from coverage of new federal and postal employees and non-profit employees would be $21 billion. My staff called the Commission to find out how much of that total was derived from coverage of new federal and postal workers. We were told that no separate breakdown of these figures existed, but that the staff estimated that $18 billion would come from federal and postal workers and $3 billion from non-profit workers.

When the Commission issued its report in January, a separate figure for federal and postal workers was still not published, but we were told a total of $20 billion would be "saved" from new federal and postal, and non-profit workers. Again, we tried to get a breakdown of the effect. This time we were told that $11.7 billion was attributable to new federal and postal workers. Because of the disparity in these figures, we asked our consultants to independently analyze the issue and give us a cost estimate.

Mr. Chairman, I don't know why the Commission has based this momentous decision on such loose estimates. Our analysts, using data from the Office of Personnel Management, have found that the total revenue to the Social Security Trust Fund which would be derived from new federal and postal employees over the six year period from 1984 to 1989 is only $2.3 billion. The government match as the employing agency will produce another $2.3 billion for a total of only $4.6 billion. With a six year shortfall in Social Security of $150-200 billion, you are proposing to totally disrupt the Civil Service Retirement System for $4.6 billion, only about two percent of the Commission's recommended package.

TABLE 1.—INCREASED OASDI REVENUE DUE TO SOCIAL SECURITY FOR NEW FEDERAL AND POSTAL EMPLOYEES, FISCAL YEARS 1984–89

[Dollars in millions]

	Fiscal year—						Total
	1984	1985	1986	1987	1988	1989	1984–89
Employee contribution	$42	$179	$304	$437	$583	$736	$2,281
Government agency contribution	42	179	304	437	583	736	2,281
Total revenue to social security trust fund	84	358	608	874	1,166	1,472	4,562

Note.—These estimates are based upon the following assumptions: (1) wages will increase by 6.5 perent per year; (2) approximately 153,000 workers will be hired each year which is average of actual new hires of 169,000 in 1981 and 137,000 in 1982; and (3) all Federal and postal workers hired after January 1, 1984 will be covered by social security.

Mr. Chairman, the real solution to the Social Security crisis is to put Americans back to work. It is clear that much of the current shortfall has been caused by the Reagan recession. For every one percent increase in unemployment, the Social Security trust fund is decreased by more than $2 billion per year. The way to increase Social Security revenues is to increase employment.

COST TO CIVIL SERVICE RETIREMENT SYSTEM OF COVERING NEW EMPLOYEES

Coverage of federal and postal retirees is clearly not a major factor in solving the Social Security shortfall. Moreover, the Commission's data showing savings to the Social Security system are misleading because costs of dismantling the Civil Service Retirement System are not reflected in the data.

The Civil Service Retirement system is a financially sound plan for our workers—the type of plan we intend to keep. Federal and postal employees have paid into the Civil Service Retirement fund since its inception in 1920, well before Social Security came into being. Together, the employee and employer contributions (along with an additional yearly employer contribution to make up for past liabilities) have created a healthy reserve of $98 billion in the Civil Service Retirement System Trust Fund, enough to fund the system for five years. I have attached to my testimony a detailed description of the current Civil Service Retirement System including a history of government funding policy over the past 63 years.

The federal retirement system is a pay-as-you-go system, like Social Security, with current workers contributing to the retirement benefits of current retirees. Actuarial projections over the next 100 years show CSRS to be a healthy system with Trust Fund revenues adequate to pay all projected benefits.

In a pay-as-you-go system like Social Security and CSRS, "unfunded liability" is not a useful concept since the very essence of the system is to defer to future years, and new generations of workers, the payment of benefits which current workers are presently accruing. Pay-as-you-go systems make sense for government pension programs, unlike private sector plans, because they are based on the assumption government will be around in 75 or 100 years.

If a pay-as-you-go system were to be closed, with new entrants removed from the system, the unfunded liability would become a debt which must be paid. If you removed new employees from the Civil Service Retirement System and left the funding mechanism as is, the Civil Service Trust Fund eventually would not have sufficient fund to pay the benefits due retirees each year. By the year 2004, according to actuarial projections prepared by Ed Hustead, former Chief Actuary of CSRS and now of Hay Associates, the fund would be insufficient and large transfers from general revenues would be necessary to pay benefits. At that point, Civil Service retirees would be very vulnerable to major benefit reductions in order to reduce the amount of general revenue needed. Anticipating the massive shortfall which would occur in CSRS from removing new entrants, the only way to guarantee the future benefits promised by the current system is to amortize, through annual transfers into the Trust Fund, the dynamic unfunded liability of $538 billion, which must be done if the Civil Service Retirement System is changed from a pay-as-you-go to a closed system.

Table 2 is an amortization schedule for the unfunded liability assuming equal installments over 40 years. The $36 billion payment per year includes the principle of $538 billion and all interest due. The current CSRS funding formula provides for government payment of interest on the unfunded liability, so Table 2 represents some of the current costs plus additional costs.

Table 3 compares current costs to fully amortized costs in order to separately identify just the additional amount to be paid from the general revenue if the unfunded liability is amortized over 40 years. This table compares the cost to the government of maintaining CSRS for those now in the system under current financing, to the cost needed to make the currently required government payment plus the amount needed to amortize the unfunded liability over the next 40 years. Under the amortization schedule, Congress would have to appropriate to the Civil Service Retirement System Trust Fund an additional $640 billion to fully fund the benefits of current workers and retirees.

TABLE 2.—AMORTIZATION SCHEDULE FOR CSRS UNFUNDED LIABILITY[1] INITIAL UNFUNDED LIABILITY=$536.0

Year	Payment	Unfunded liability
1983	36.1	$532.6
1984	36.1	529.0
1985	36.1	525.2
1986	36.1	521.2
1987	36.1	516.9
1988	36.1	512.4
1989	36.1	507.6
1990	36.1	502.5
1991	36.1	497.0
1992	36.1	491.3
1993	36.1	485.7
1994	36.1	478.7
1995	36.1	471.8
1996	36.1	464.5
1997	36.1	456.8
1998	36.1	448.6
1999	36.1	439.9
2000	36.1	430.6
2001	36.1	420.8
2002	36.1	410.4
2003	36.1	399.4
2004	36.1	387.7
2005	36.1	375.2
2006	36.1	362.1
2007	36.1	348.1
2008	36.1	333.2
2009	36.1	317.5
2010	36.1	300.8
2011	36.1	283.1
2012	36.1	264.2

TABLE 2.—AMORTIZATION SCHEDULE FOR CSRS UNFUNDED LIABILITY[1] INITIAL UNFUNDED LIABILITY—$536.0—Continued

Year	Payment	Unfunded liability
2013	36.1	$244.3
2014	36.1	223.1
2015	36.1	200.7
2016	36.1	176.8
2017	36.1	151.5
2018	36.1	124.7
2019	36.1	96.2
2020	36.1	66.0
2021	36.1	34.0
2022	36.1	0.0

[1] Asssumes the amoritization is made in 40 equal installments. This schedule for amoritizing the unfunded liability in the civil service retirement system, which would become necessary to meet obligations if new entrants were excluded from the system, was prepared by Edwin Hustead of Hays Associates.

If new entrants are excluded from the Civil Service Retirement System, it will become necessary to transfer federal income tax revenue into the CSRS Trust fund in order to fully fund the benefits of current workers. Column 1 of the following table shows the government cost to maintain CSRS under current financing for those now in the system. Column 2 shows the payment required to meet current law plus the additional amount to amortize over 40 years, the unfunded liability needed if the CSRS system is closed to new entrants. The difference between Column 1 and Column 2 is the additional amount the taxpayers will have to pay to CSRS if new federal and postal workers are removed from the system.

TABLE 3.—COST TO GOVERNMENT OF EXCLUDING NEW ENTRANTS TO CSRS

[Dollars in billions]

Year	1	2	2-1
1983	20.50	29.31	8.81
1984	21.86	30.36	8.50
1985	22.88	31.27	8.39
1986	24.33	32.18	7.85
1987	25.43	32.89	7.46
1988	26.45	33.77	7.32
1989	27.30	34.65	7.35
1990	28.07	35.27	7.20
1991	28.92	35.85	6.93
1992	29.77	36.63	6.86
1993	30.62	37.10	6.48
1994	31.47	37.50	6.03
1995	32.32	37.51	5.19
1996	33.42	38.67	5.25
1997	34.61	40.18	5.57
1998	35.72	41.37	5.65
1999	36.91	42.56	5.65
2000	38.01	44.15	6.14
2001	39.46	46.21	6.75
2002	40.90	48.36	7.46
2003	42.43	50.60	8.17
2004	43.88	53.20	9.32
2005	45.32	55.92	10.60
2006	46.85	58.49	11.64
2007	48.47	61.48	13.01
2008	50.00	64.61	14.61
2009	51.53	67.90	16.37
2010	53.14	71.36	18.22
2011	55.18	74.98	19.80
2012	57.14	78.78	21.64

TABLE 3.—COST TO GOVERNMENT OF EXCLUDING NEW ENTRANTS TO CSRS—Continued

[Dollars in billions]

Year	1	2	2-1
2013	59.18	82.77	23.59
2014	61.13	86.96	28.18
2015	63.17	91.35	28.18
2016	65.30	95.96	30.66
2017	67.42	100.80	33.38
2018	69.46	105.87	36.41
2019	71.08	111.18	40.10
2020	73.71	116.76	43.05
2021	75.75	123.30	47.55
2022	77.79	130.20	52.41
40-year total	1786.88	2428.26	641.38

Additional cost to the taxpayer of closing CSRS is more than $640 billion over the 40-year period.

Source of table: Edwin Hustead, formern chief actuary, civil service retirement trust fund, now of Hay Associates.

Members of Congress should understand that removing new federal and postal workers from CSRS will set in motion a process which will destroy the system. This destruction comes in the guise of saving Social Security, yet over the next six years, the net reduction in the Social Security shortfall gained by diverting new postal and federal employee taxes into the Social Security Trust Fund is actually exceeded by the loss of revenue to the Civil Service Retirement System. In addition, the need to amortize the unfunded liability in CSRS, which becomes necessary when new enterants are removed, will cost the general revenue coffers an additional $640 billion.

Clearly, the savings to the Social Security system in the short run from covering new federal and postal employees are simply not worth the cost of dismantling the Civil Service Retirement System. The same is true in the long run.

The National Commission on Social Security Reform's final proposal claims there will be long term savings in Social Security resulting from the coverage of federal and postal workers. Given the massive long term imbalance of the Social Security Trust Fund under either moderate (II-B) economic assumptions or pessimistic (III) assumptions, it is stretching way beyond the margin of error to state that extended coverage will have any significant impact at all.

Coverage of new workers early in their careers provides a positive, though minimal, flow of revenues into the Social Security System. Upon retirement, however, the benefit payments to the same workers will greatly exceed their previous tax payments. In the long run, Social Security benefits paid to federal and postal employees can be expected to exceed the amount that federal and postal employees pay into the system.

Therefore, the alleged long run cost savings to the Social Security Administration from inclusion of new federal workers simply derives from the fact that any pension system incurs lower costs initially while there are few beneficiaries. Over the course of the 75 year period in which the Reform Commission based their long term economic assumptions, the Commission claimed savings to the system of 0.28 percent of payroll. They do not publish that this percentage is an average over the 75 year period which begins small, reaches 0.24 percent in 1992, climbs to 0.42 percent of payroll in 2025, and then begins to drop rapidly. (These figures are drawn from the January, 1982 Congressional Research Service report entitled, "Restructing CSRS: Analysis of Options to Control Costs and Maintain Retirement Income Security"). Once a full cohort of workers paying into the system retires, then the savings disappear and in fact, depending on the performance of the economy, coverage for new federal and postal workers may ultimately increase Social Security costs.

To tell the truth, I'm not sure I even trust the Commission's figures of an average savings of 0.28 percent of payroll. They don't publish their assumptions concerning the number of new federal workers, the growth in the federal labor force, or the average wage rate at which new workers are hired. Since short term savings are less than they have said, the 75 years savings may be overstated as well.

The average savings of 0.28 percent of payroll estimated by the Commission was developed using the Social Security II-B economic assumptions concerning unemployment, inflation, etc. Using series III economic assumptions, the average savings over the 75 year period drops from 0.28 percent according to our calculations to 0.05

percent of payroll. Under more pessimistic assumptions, there could be no savings at all.

ARGUMENTS AGAINST COVERAGE FOR NEW HIRES

Mr. Chairman, the financial data argue strongly against placing new federal and postal employees under Social Security. In the next six years, the revenue to Social Security collected from new federal and postal workers is only $2.3 billion, not enough to even make a dent in the shortfall. The loss of revenue to the Civil Service Retirement System from lost employee contributions over the same time period will be $2.5 billion.

Trying to patch over the financial problems of the Social Security system by forcing all new federal and postal employees to pay into it is nothing more than a fiscal sleight of hand. Money is simply being transferred between budgetary accounts. It is actually "robbing Peter (CSRS) to pay Paul (Social Security)."

Short term gains for Social Security will ultimately mean huge pressures on the Civil Service Retirement System. The cost to the federal treasury of closing out the Civil Service Retirement System over the next 40 years will be $640 billion, an impossibly high price to pay for so little gain in the Social Security system. Federal general revenues, funds from taxpayers, will have to make up this difference or our benefits will be drastically reduced.

Over the next 75 years, there probably will be some gain to the Social Security system from covering federal and postal workers, ranging from an average of less than 5/100 of 1 percent of payroll to 28/100 of 1 percent of payroll depending on the economy. In any case, the gains that occur will be wiped out once all federal workers are in the Social Security system and all federal and postal retirees are drawing benefits.

The Social Security Reform Commission by its recommendation has threatened the retirement security of retired, active and future postal employees. Mr. Chairman, American postal workers deliver more mail, more efficiently, for less money than any nation on earth. We move 110 billion pieces of mail per year, or some 161,879 pieces per employee—a productivity per worker rate that is 44 percent above that of our closest competitor, Japan.

We are able to attract and maintain a qualified work force by offering a respectable wage plus a strong retirement plan. If you take those incentives away, you will see our work force become less productive as good people move to the more lucrative private sector.

The Civil Service Retirement System is a good system. It is comparable to retirement plans of large private sector employers. The American Postal Workers Union commissioned a study to compare CSRS, the largest pension plan in the country, with other large plans. At most ages after retirement, CSRS is less generous than the largest private sector plan, that of General Motors, and is either comparable to or less generous at most ages than the second largest program, which is sponsored by AT&T. I will submit the study, conducted by ICF Incorporated, for the hearing record of the Committee.

The Civil Service Retirement System is a good system. It is not overly generous compared to large private sector plans, but it is an attractive plan to our workers. The Civil Service Retirement System, as I have stated earlier, is an actuarially sound plan. For that we thank the members of the House Post Office and Civil Service Committee and the Senate Governmental Affairs Committee. There is simply no justifiable rationale for destroying the Civil Service Retirement System.

I urge the members of this Committee to protect the retirement rights of past, current, and future postal and federal workers by deleting from the amendments under consideration the Social Security coverage extended to new federal and postal workers.

ATTACHMENT 1

CURRENT STATUS OF THE CIVIL SERVICE RETIREMENT SYSTEM

On September 30, 1981, the Civil Service Retirement System included 2.7 million active employees, plus an additional 55,000 on leave without pay who retain coverage, 1.35 million annuitants, 471 thousand receiving survivor benefits, and 180,000 former employees who will be eligible for deferred benefits.

The present value of future benefits on September 30, 1981, according to the most recent published actuarial valuation of the system was as follows:

	Billions
(a) Annuitants now on roll	$283.3
(b) Former employees	3.5
(c) Active employees	586.3
Total	873.1
Less:	
Present value of future employer/employee contributions	−290.9
Assets now invested in the CSR trust fund	−83.4
Leaving: Unfunded accrued liability	498.9

Each year covered employees contribute 7 percent of payroll to the fund and the employing agencies provide a matching 7 percent. The government makes an additional payment to cover interest on the unfunded liability and changes in salary, and a payment on behalf of CS retirees who claim years of military service toward retirement.

The federal retirement program is a pay-as-you-go system like Social Security, with current workers contributing to the retirement benefits of current retirees. Actuarial projections over the next 100 years show CSRS to be a healthy system with Trust Fund revenues adequate to pay all projected benefits.

In a pay-as-you-go system, "unfunded liability" is not a useful concept since the very essence of the system is to defer to future years and new generations of workers and taxpayers the payment of benefits which current workers are presently accruing. However, if a pay-as-you-go system were to be closed, with no new entrants in the system, then the unfunded liability would become a debt which must be paid.

The unfunded liability is estimated by OPM using the static and dynamic estimates. The dynamic unfunded liability presents a realistic assessment of the cost to taxpayers of amortizing the debt in the system. (The difference between using the so-called "static" assumptions and "dynamic" assumptions in estimating retirement costs is not complicated. Using static assumptions simply means that retirement costs caused by inflation are not recognized until the inflation actually occurs. They are then taken into account to the extent that inflation has increased retirement costs. The dynamic assumptions estimate the inflation that will occur in each year in the future, and increase the stated costs for any given year by including retirement costs that will be created by pay raises and annuity increases expected to occur in future years. The static unfunded liability according to OPM is $185 billion, while the dynamic unfunded liability is estimated to be $538 billion.)

The unfunded liability in the Civil Service system is a result of past policy concerning the government contribution. In the first eight years of the system's existence (1920–1928) no government contribution was made while employees contributed 2½ percent of salary. An unfunded liability first developed in these years.

From 1929–1949, appropriations were enacted to cover the normal costs of the system and to amortize the unfunded liability. However, in the eight year period from 1950 to 1957, in an effort to help balance the budget, the appropriation for five of the eight years was reduced below the level needed to cover costs plus amortization. Amendments to the CSRS in 1956, which took effect in 1958, required for the first time that the agency contribution be made each year. This achieved the objective of assuring annual income to the fund approximating normal costs (percent of salary to be set aside each year to fully fund benefit entitlement by retirement). In addition, the Civil Service Commission was to submit to Congress each year the estimate of appropriations needed to cover interest on the unfunded liability. Unfortunately, there was no requirement that this interest be paid or that the unfunded liability be amortized.

In 1958, 1959, and 1960, no government contribution beyond the agency contribution was made. In 1961–1968, small additional appropriations to cover benefit changes were made but no interest on the unfunded liability was paid. The unfunded liability continued to grow substantially during this period.

A major reform of the Civil Service Retirement System was passed in 1969 which included these provisions:

(1) Increase in the agency and employee contribution to 7 percent each (Social Security OASDI contributions at that time were 6.5 for both agency and employee);

(2) Requirement to finance any changes which increase liability (e.g., pay increases, liberalized benefits) in equal annual installments over 30 years.

(3) Reimbursement of Civil Service Retirement Benefits based on military service from general revenues.

(4) Phase-in from 1970 to 1980 full payment of interest on the unfunded liability. (No provision was made to amortize the unfunded liability).

The changes went into effect in 1970. Growth of the unfunded liability was slowed by these amendments but not stopped. From 1970–1980 it continued to grow due to the phase-in provisions on payment of interest and for military service. Over this period and since, the unfunded liability also has been increased due to cost-of-living increases for annuitants, since COLA adjustments were specifically excluded from the 30-year funding provision.

In 1974, the Postal Service became responsible for liabilities covered under the 30-year funding provision on behalf of postal workers.

Another contributor to unfunded liability is the low real rate of return on investment which the system has experienced in recent years due to inflation. The assets in the fund are invested by the Department of Treasury in Special Treasury notes. The interest rate for new purchases or rollover of notes which have matured is determined annually and is equal to the average of all publicly available government notes of four years or more.

The poor experience on rate of return of long-term government bonds in the last 15 years has contributed to a low real rate of return in recent years. Over the history of the fund, rate of return has not been a problem. Recent high interest rates have resulted in higher rates on the Special Treasury rates. Purchase made in 1982 was at a 13¼ percent rate, which could provide a substantial real rate of return over the next few years if inflation does not return to double digit levels.

The large unfunded liability and the sizeable government contribution are often cited as reasons to change this system. As can be seen from this history of the system, the unfunded liability is partially due to failure of the government to pay its share of costs in the past. In addition, the large government contribution (almost 30 percent of payroll in 1980) is attributable to some degree to the interest on unfunded liability which comprises more than one-third of the government contribution. Thus, the current size of the government contribution can be tied in part to government failure in the past to make adequate contributions.

Mr. SHANNON. Mr. Sombrotto.

STATEMENT OF VINCENT R. SOMBROTTO, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO

Mr. SOMBROTTO. Thank you. My name is Vincent R. Sombrotto, I am the president of the National Association of Letter Carriers, AFL–CIO, a labor organization which is comprised of some 250,000 members. And those 250,000 members speak as one as being unalterably and unequivocally opposed to the inclusion of new Federal and postal employees into social security.

I have no realistic expectation that in the few minutes I have this morning I can convince the subcommittee that the report of the National Commission on Social Security is unsound. The fact of the matter is the report is unsound. It is wrong on the facts, wrong on the numbers, and wrong as a matter of philosophy, wrong for social security beneficiaries, wrong for taxpayers of America, and wrong for the working men and women of America. We can and will establish that the Commission is wrong if we are given the chance.

You must resist the effort to stampede the Congress into blindly rubberstamping a high pressured deal worked out under the White House gun by a small group of perhaps well-meaning individuals who simply did not have the facts. They now want to lead you through a game of blind man's bluff so that you will not perform your sacred duty to legislate.

In the instance of social security you are being told that you must yield your fundamental authority and responsibility to a 15 person National Commission on Social Security consisting of a minority of elected officials. 4 Senators and 3 Members of the House, 5 of whom are Republicans and 2 are Democrats with the balance being representatives of big business or private consultants with the sole exception of Lane Kirkland, president of the AFL-CIO.

The National Commission's report is a cop out. This body has the responsibility of attacking the real problem of social security. You simply cannot avoid that responsibility because it is the easy thing to do. Or simply because you are told it is a "toughie, don't tinker with it; it is so delicate it will unravel, disintegrate before your very eyes." Nonsense.

If the Commission's report cannot stand objective evaluation, if the individual parts cannot withstand scrutiny, if it is so fragile, so delicate that it cannot be picked up, looked at, poked at, then it is a fraud. In the name of the people of this country, I plead with you to do only one thing—your job. Do not be stampeded; be Congressmen. Listen to us. The Commission is wrong.

Here is just one error, a glaring error, a $6 billion error. It happens to be in a specific area we know something about. The Commission says that $12 billion will be added to social security during the next 6 years if the Federal and postal employees are covered under social security. That simply is wrong. Very wrong. Based upon a number supplied by the Government itself, at most, $6.2 billion would be saved, and that is a very, very optimistic view.

But not only is the Commission wrong about the short term numbers, the Commission's calculation of the long-range savings is also wrong. Just for openers, we note and emphasize that even if Federal and postal workers are added to social security and even if the Commission's entire grab bag of Band-Aid solutions is adopted, the social security system is still in a negative 0.58 percentage of payroll posture over the long term. According to the Commission's own figures, that is hundreds of millions of dollars, and anyway you cut it, that means even after all this fancy footwork, you are talking about adding more workers to an unbalanced, unfunded system and that is just plain silly.

That reminds me of the story about two businessmen that buy watermelons at $2 apiece and sell them for $1. And when the first partner says let's go back and buy two truckloads, the second partner says we are losing money. And the first partner says, well, we will make it up on volume, and that is what it sounds like you are trying to do here.

Even the Commission admitted this on page 28 of its report, although they tried to bury it. That is just the tip of the iceberg. Don't forget that Federal and postal workers who retire under the civil service retirement system pay taxes on their annuities. So in 2015 or so when the first Federal and postal workers covered by social security would begin to retire, the overall U.S. budget would lose important tax revenues which it would otherwise receive if these workers had been covered by CSRS.

The National Commission on Social Security is wrong about the short-term and long-term benefit social security would receive if newly hired Federal and postal were to be hauled under social security.

Then why is it being proposed? For one thing, the Commission may be unaware of its errors. Also, perhaps Commission members are concerned about the public's perception of the so-called windfall which Federal and postal workers are supposed to reap from social security. This windfall is supposed to come about when Federal and postal workers, at least a few of them, retire from Government and then work in the private sector the minimum number of quarters necessary to qualify for social security.

We believe that a very few Federal and postal workers receive any windfall for their covered time under social security, but if there are any windfall benefits for any Federal and postal workers, then Congress has the ability to correct that problem. Congress need not blindly follow the Commission's recommendations if it is simply concerned about correcting what it considers to be an inequitable result coming from the present system.

No, Congress should not and must not blindly adopt the Commission's recommendations. There are too many numbers that do not compute. Bringing newly hired Federal and postal workers under social security will simply hurt the Civil Service Retirement System, while certainly not helping social security.

So we urge you not to follow the Commission blindly. We urge you to perform your constitutional obligations of reviewing and testing the Commission's recommendations. We are convinced that if Congress makes its own inquiries and uses its own judgment, that Congress will reach the only sensible solution of this issue and not bring Federal and postal workers under social security.

[The prepared statement and attachment follows:]

STATEMENT OF VINCENT R. SOMBROTTO, PRESIDENT, NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO

Mr. Chairman, my name is Vincent R. Sombrotto. I am President of the National Association of Letter Carriers, AFL-CIO, a labor organization comprised of 250,000 members who are either presently employed as City Delivery Carriers by the U.S. Postal Service or who are retired from such employment. The financial stability of the Social Security system is of major importance to our members, most of whom have family members who are or will be dependent upon Social Security. Consequently, I am pleased to appear before you and the other members of the Subcommittee.

I have no realistic expectation that in the few minutes I have this morning I can convince this subcommittee that the Report of the National Commission on Social Security is unsound. The fact of the matter is that the Report is unsound. It is wrong on the facts -- wrong on the numbers -- wrong as a matter of philosophy -- wrong for Social Security beneficiaries -- wrong for the taxpayers of America -- wrong for the working people of America. Not only can we establish that the Commission is wrong, we will establish that the Commission is wrong.

If we are given the chance. What I do want to emphasize today is that you must resist the effort to stampede the Congress into blindly rubber-stamping a high-pressured deal worked out under the White House gun by a small group of perhaps well-meaning individuals -- who simply didn't have the facts. They couldn't even agree on anything except the fact that there was a problem -- nevertheless they still patched together a crazy quilt of half-baked ideas to cover up the fact that they really did not have a coherent approach to the problem. They now want to lead you through a game of blindman's buff so that you won't perform your sacred duty to legislate.

It is bad enough that for the past few years the Congress of the United States has abdicated its responsibility to legislate on substantive issues of concern to the American people, but rather has sacrificed its constitutional authority, body and soul, on the altar of the Budget Process and Reconciliation. As bad as that is -- and I implore you to recapture your legislative prerogatives before they are mere footnotes in history -- they have the single redeeming virtue that your abdication of responsibility has at least been within these hallowed halls.

In the instance of Social Security, however, you are being told that you must yield your fundamental authority and responsibility to a 15-person National Commission on Social Security, consisting of a minority of elected officials (four Senators and three Members of the House, five of whom are Republicans and two Democrats), with the balance being representatives of big business or private consultants, with the sole exception of Lane Kirkland, President of the AFL-CIO.

The National Commission's report is a cop-out. This body has the responsibility of attacking the real problem of Social Security and not hiding behind this chewing gum and paper clip contraption simply because it's the easy thing to do. Or simply because you're told that "this is a toughie

-- don't tinker with it -- it's so delicate that it will unravel, disintegrate before your very eyes." NONSENSE. If the Commission's Report cannot stand an objective evaluation -- its individual parts can't withstand scrutiny -- if it is so fragile, so delicate, that it can't be picked up, looked at, poked at -- then it is a fraud.

Since when is the Congress of the United States afraid to consider something on its merits?

Since when does the Congress of the United States abdicate its responsibility to outsiders?

In the name of the people of this country, I plead with you to do only one thing -- YOUR JOB! Don't be stampeded. Be Congressmen. Listen to us. The Commission is wrong. Here's just one error. A glaring error. A $6 billion error. It happens to be in a specific area we know something about.

The Commission says that $20 billion will be added to Social Security during the next six years if non-profit and new federal and postal employees are covered under Social Security (page 2-5 of the Report). The Commission also says that $12 billion of this $20 billion can be attributed to the inclusion of new federal and postal workers under Social Security. That is simply wrong. Very wrong. The fact of the matter is, at most $6.2 billion would be saved. And this $6.2 billion figure is based upon numbers supplied by the government itself.

Here's how the $6.2 billion figure was arrived at.

According to the U. S. Office of Personnel Management, there will be an average of 190,000 new C.S.R.S.-covered federal and postal workers in each of the next six years. They will enter government service at an average wage level of $15,900. If you do the proper calculations, and they are in the appendices attached to this statement, the very maximum that these new federal and postal workers would pay into Social Security over these six years would be $6.2 billion.

We believe that even the $6.2 billion figure is high. It assumes a level of federal employment through 1989 wholly inconsistent with the Reagan Administration's determined effort to cut the federal workforce to shreds.

But not only is the Commission wrong, very wrong about the short-term numbers, the Commission's calculation of the long-range savings is also wrong.

Just for openers, we note, and emphasize, that even if federal and postal workers are added to Social Security, and even if the Commission's entire grab bag of bandaid solutions is adopted, the Social Security System is still in a negative .58 percentage of payroll posture over the long-term -- according to the Commission's own figures. (In fact, the Social Security Administration's own actuaries presented information to this Committee only last week which suggested that the funding gap would be at least .8 percent of payroll.)

That is hundreds of billions of dollars. Any way you cut it, that means that even after all this fancy footwork, you're talking about adding more workers to an unbalanced, unfunded system. That's plain silly.

Even the Commission admitted this, although they tried to bury it. Listen to this from page 2-8 of the Commission's Report:

> "The additional OASDI taxes paid on behalf of the newly-covered workers over the long run will exceed, on the average, the additional benefits which result from such employment" --

and now comes the kicker --

> "assuming that the program is in long range actuarial balance." (emphasis added)

And assuming my name was John Riggins, I would be better able to plow through the "don't touch me" defense wall here.

But look at that "assumption." It's phony. The program is not in long-range actuarial balance. And the Commission's recommendations, even if adopted, still son't put the System in long-range actuarial balance. So what happens when the assumption falls? So does the whole stack of cards.

That's just the tip of the iceberg. Don't forget that federal and postal workers who retire under the Civil Service Retirement System pay taxes on their annuities. So in 2015 or so when the first federal and postal workers covered by

Social Security would begin to retire, the overall U. S. budget would lose important tax revenue which it would otherwise receive if these workers had been covered by C.S.R.S. Now this loss isn't even part of the .58 -- or .8 -- percent of payroll which is the long-term deficit of Social Security itself. But it is a loss to the American taxpayer.

The National Commission on Social Security is wrong about the short-term and long-term "benefit" Social Security would receive if newly-hired federal and postal workers were to be hauled under Social Security.

It should be noted here that Robert J. Myers, Executive Director of the Commission, has made some recent attempts to dig out from under charges that these "benefits" are more illusory than real. We have rebutted each and every one of his statements in an appendix attached to this document.

If the Commission is wrong, and Robert Myers is wrong, then why is this entire matter of bringing new federal and postal workers under Social Security being proposed?

For one thing the Commission may be unaware of its errors. Also, perhaps Commission members are concerned about the public's perception of a so-called "windfall" which federal and postal workers are supposed to reap from Social Security.

We believe that very few federal and postal workers receive any "windfall" for their time in covered employment. Far more common are those workers who work both for the government and a private employer at the same time for many, many years.

But _if_ there are "windfall" benefits for any federal and postal workers, then Congress has the ability to correct the problem -- _that_ problem.

Congress need not blindly follow the Commission's recommendations if it is simply concerned about correcting what it considers to be an inequitable result coming from the present system.

No, Congress should not and must not blindly adopt the Commission's recommendations. There are too many numbers that don't compute.

Bringing newly-hired federal and postal workers under Social Security will simply hurt the Civil Service Retirement System while certainly not helping Social Security.

So we urge you not to follow the Commission blindly. We urge you to perform your constitutional obligations of reviewing and testing the Commission's recommendations. We are convinced that if the Congress makes its own inquiries, and uses its own judgment, then Congress will reach the only sensible resolution of this issue -- and _not_ bring federal and postal workers under Social Security.

APPENDIX I

Rebuttal to Robert J. Myers

Federal employee organizations have recently been charged with several significant factual inaccuracies "by Robert J. Myers, the Exeuctive Director of the National Commission (memorandum to member of the National Commission, January 31, 1983).

We will demonstrate, however, that it is Mr. Myers who has played fast and loose with the facts, despite his self-serving assertion that his statements are "completely objective and completely accurate".

The plain fact of the matter is that the National Commission, and Mr. Myers, deliberately avoided the fundamental reality that that is no free lunch.

A. The National Commission conveniently states that it "believes that an independent supplemental retirement plan should be developed for the federal new hires".(page 2-8). The Commission adroitly avoids the questions of the costs or benefits of such a plan. It simplisticly notes that its proposal would be "just as private employers have plans supplementing the OASDI Program" (page 2-8), as though there is some standard in private industry which Congress could conveniently assume would be applicable. The reality, of course, is that there is an enormous variety of private plans, ranging from those with costs and benefits far above those applicable to current federal employees, to those at the other end of the spectrum. All such plans which are actuarially sound share a fundamental reality - one gets what one pays for.

The problem with confronting this reality, of course, is the political implications of one's approach. If one designs a supplemental plan which simply replicates the current federal employee cost-benefit picture, then the "savings" to be realized by the federal government will have been a sham. If one develops a plan that either reduces the benefit to employees, or increases their costs, then the myth of "no one gets hurt" will have been destroyed. Best simply to ignore the question, and pass it along to a subsequent session of the Congress. Neat, but hardly responsible.

The best evidence of the validity of this analysis is that Mr. Myers, in yet another last-minute memorandum to no one imparticular (February 1, 1983) addresses a "Possible Method Of Modifying Civil Service Retirement System For New Hires if they are Provided Social Security". In this memo, Mr. Myers admits that, in order to produce a system that maintains approximately the same overall costs to both employees and the Federal Government, "the amount payable under CSR will be lower than at present" at age 65 and over, for OASDI - elibigle recepients.

If the Congress intends to consider reductions of benefits for new federal employees, it should be forthright enough to accept the responsibility for that decision. We believe that such a decision would be disastrous, but at least we could deal with it on its merits, rather than with a phantom supplemental plan whose only form and function is to obfuscate rather than inform.

B. The revealing flaw in Mr. Myers analysis of our earlier criticism relates to his comments regarding the impact on the general taxpayer of the National Commissions proposal. Here, Mr. Myers is forced to agree with our point that the general taxpayer will suffer because income tax receipts with respect to the pension of new hires will be less under the National Commissions proposals then at present - (Myers 1-31-83 memo, pp. 4-5). Does he have an answer for that assertion? No. Does he quantify the loss? No. All he does, conveniently, is lapse into the old political bromide that federal employees should be in the same plan as private employees. That is not only a non-sequitur, it belies the "completely objective and completely accurate" mantle assumed by Mr. Myers.

While it may be understandable that the National Commission and Mr. Myers would interpret their mandate narrowly, dealing only with the Social Security System without any concern for the broad implications of their analysis and recommendations, Congress may not engage in the same tunnel vision.

Social Security does not exist in a vaccum. The implications for the entire federal budget of any proposal dealing with Social Security, must be examined.

Even assuming that there might be a short term cash infusion and long term actuarial advantage to the Social Security trust fund from inclusion of new federal employees, the Social Security System does not exist in splendid isolation.

We submit that the offsetting cost to the Federal Government and therefore, to the general taxpayer out weigh any conceivable benefit to the Social Security System. The National Commission ducked those issues. Mr. Myers answers them with political rhetoric. All we ask is that Congress ask the questions and get the answers.

C. Mr. Myers asserts that "of course, the Social Security Program would also be soundly and adequately financed under the recommendations of the National Commission on Social Security reform",(Myers 1-31-83 memo).

This is simply not ture.

The National Commission concluded that the long range actuarial imbalance in the system was 1.80% of taxable payroll. (report page 2-2 to 2.3). The Commissions recommendations covered only two thirds of their projected 1.8 percent long range deficit (report, 2-3).*

With all due respect to Executive Director Myers, we submit that his post-hoc effort to fill in the blanks of the National Commissions report are tainted by faulty analysis and inappropriately biased rhetoric. We are prepared to deal with the real facts, in the traditional searching inquiry of Congressional hearings.

* As noted elsewhere in this document, the "benefits" calculated by the National Commission to "make up" this deficit appear inflated. To compound their error, it now appears that the National Commission also underestimated the long range deficit. According to the Health and Human Services Secretary, Richard S. Schweiker, it appears that the deficit is really 2.1% (Testimony 2-3-83).

The annexed economic analysis is a first step in the kind of detailed review that Congress traditionally requires with respect to an issue of such magnatude.

There has been a concerted effort to mislead the Congress and the American public regarding the impact of the coverage of new federal hires under Social Security.

The deception is based upon the simple trick of not talking about all issues at the same time. Thus, when the National Commission addresses the issue of bolstering income to the Social Security System, it ignores the impact of such coverage upon the tax revenues lost to the Treasury by the fact that Social Security retirement benefits for new federal hires will be non-taxable, whereas Civil Service Retirement benefits are taxable.

The National Commission also ignores the impact upon CSRS of removing new hires from that system.

The National Commission also ignores the impact upon the new hires, except for its "belief" that a supplemental retirement plan, of undefined benefits and uncertain costs "should be developed".

Even with reference to its conclusion that coverage of new federal hires would benefit the Social Security System, "over the long run," the National Commission notes, without further consideration, "assuming that the program is in long term actuarial balance". An assumption which the Commission's own staff revealed is not accurate.

APPENDIX II

AN ANALYSIS OF THE SHORT TERM SAVINGS AND LONG TERM SAVINGS TO SOCIAL SECURITY OF COVERING NEW FEDERAL HIRES

I. Introduction

The purpose of this Appendix is to present figures that show that the short term savings from bringing new Federal hires into the Social Security System is much less than the amount cited in the Report of the National Commission on Social Security Reform (hereinafter referred to as the Report). We will also indicate why the long run calculations cited in the Report may be biased upwards.

We estimate that at most, $6.2 billion in new revenues to Social Security in the years 1984 through 1989, would result from coverage of Federal and Postal new hires beginning in January, 1984. This contrasts with the Commission's figure of $12.1 billion. We are able to present fairly accurate estimates on the short term savings because we have been able to acquire relatively accurate figures on new Federal hires from the Office of Personnel Management. It appears to us from conversations we had with OPM, that those figures were not available at the time the Report was being completed. Thus, the figures presented in the Report are most likely a best guess that in retrospect is inaccurate.

We estimate that coverage of Federal and Postal new hires, plus non-profit employees, under Social Security would result in a long-term savings to the System of no more than 0.25 percent of payroll. This contrasts with the Commission's figure of 0.3 percent. For the long run estimates, we tried to establish upward limits on the savings to Social Security from having new Federal hires in the system. We could not be as accurate in our long run estimates as in our short run calculation. That was because the requisite data for such accuracy are unavailable (just as they were for those who computed the long run savings for the Report).

II. The Short Run Calculations

To estimate the short run savings, we need the following information:

- Number of new hires from 1984 through 1989;
- Attrition rate of new hires;
- Starting salaries of new hires;
- Increases in wages other than general wage increases;
- Increases in wages due to general wage increases.

(We assumed that no new hire would begin to collect benefits from Social Security within the period 1984-1989.)

For information on new hires we turned to the Office of Personnel Management (OPM). We obtained historical data for 1977 to 1982 on new hires from Andrew Klugh at OPM. He made two sets of figures available to us: new hires in the Federal government and new hires to the Postal Service. Both sets include entrants and re-entrants (i.e., those who have left government service and have returned) who are permanent employees and who have become part of the Civil Service Retirement System (CSRS).

The number for entrants and re-entrants is much less than total new hires. That is because many individuals are hired on a temporary basis each year by the Federal government and never become part of CSRS. We do not want to include such temporaries because they are covered by Social Security and would add no new money to the system. It is only those who go on to CSRS but would now be covered by Social Security that matter for increased Social Security revenues.

The historical data obtained for entrants and re-entrants are as follows:

(FY)	Federal Government	Postal Service
1977	102000	N.A.
1978	108000	N.A.
1979	109000	N.A.
1980	96000	42000
1981	100000	48000
Average:	103000	45000

(N.A.: Not Available)

Beside entrants and re-entrants there is one other group that needs to be considered. It comprises temporaries who are converted to permanent status and go onto CSRS. According to Jim Hall of OPM, the number of individuals in that group is 40000 per year.

Adding the average number of new Federal hires, new postal hires and conversions yields a result of 188000 (= 103000 +

45000 + 40000). We therefore assumed a round figure of 190000 new hires and conversions that would become part of the CSRS system every year. We further assumed the number of new hires would be relatively constant from 1984 through 1989.

After having established the number of new hires it becomes necessary to establish the separation rate of new hires prior to retirement. There are no hard estimates on that rate (according to OPM) so we had to build up estimates from various data sources.

We estimated the separation rate by first determining the expected number of retirees from each new cohort entering. According to information from OPM, the retirement rate from the Federal government (including Postal) is currently 3 percent. Given the current size of the population of CSRS of 2.5 million (1.7 million Federal and 800 thousand Postal) that indicates 75 thousand retirees. If we take the average stay in government of those retiring as 30 years, then we have to view the 75 as coming from a cohort starting in 1951 when the Federal government was much smaller. So we increased the 75 thousand figure by the ratio of government employees in 1981 to those in 1951 to take account of the larger size of the Federal work force. That increases the 75 thousand figure to 90 thousand. The result is that we can expect that of the current 190 thousand entrants, ninety thousand will retire. That implies one hundred thousand will separate for other reasons.

After determining the number of separations, it is necessary to determine the time sequence in which new hires separate from the system over the six year period after being hired.

ACCESSION/SEPARATION RATES
ALL AGENCIES
FULL-TIME PERMANENT GS AND SIMILAR AND WAGE SYSTEM
FISCAL YEARS 1977-81

	FY 77	FY 78	FY 79	FY 80	FY 81
Total Accessions	8.9%	9.9%	9.0%	10.0%	9.1%
Accessions (less transfers)	7.7	8.2	7.5	8.4	7.7
Accessions (less transfers/ returns to duty)	6.5	6.9	6.1	6.8	6.2
Total Separations	11.9	12.1	12.6	13.6	12.8
Separations (less transfers)	10.5	10.6	11.0	11.8	11.2
Separations (less transfers/ELWOP)	8.5	8.0	8.7	9.1	8.8
Retirements	3.0	2.8	3.2	3.9	2.8
Quits	4.3	4.4	4.8	4.5	4.5
Discharges	0.3	0.3	N.A.	0.3	1.0
RIFs	0.3	0.1	0.1	0.1	0.2
Average Employment (thousands)	1,729	1,731	1,713	1,590	1,688

Source: U. S. Office of Personnel Management

According to some work done at OPM in the late nineteen sixties and relayed to us by Jim Hall of OPM, about 2/3 to 3/4 of those that separate do so in the first three years, and one half of those that separate in the first three years do so after one year. Those figures imply a range of 157 to 152 thousand CSRS employees remaining in Federal service after one year, and a range of 123 to 115 thousand employees remaining after 4 years. Those figures match separate figures from Appendix IV-B of the Board of Actuaries of the Civil Service Retirement System Fifty-Seventh Annual Report transmitted to the House Committee on Post Office and Civil Service (March 17, 1980).

Based then on both those sources, we derived, for a cohort being hired, the number that can be expected to separate in each year of a six year period. By implication we have the number that can be expected to remain.

The following table indicates the number that can be expected to remain in each year of a six year period for each cohort of 190 thousand currently hired.

New Hires And Those Remaining in Cohort
(000 omitted)

New Hires	190
Remaining in Cohort After:	
One year	153
Two years	123
Three years	118
Four years	113
Five years	108

From those figures and the assumption that in every year from 1984 through 1989 the number of new hires will be the same and will have the same separation rate, we have the following sequence of hires and retentions for each cohort hired from 1984 through 1989:

New Hires and Those
Remaining From Cohorts
Hired From 1984 through 1989
(000 omitted)

Number Remaining In:	Cohort Hired In 1984	1985	1986	1987	1988	1989	Total No. of New Hires
1984	190						190
1985	153	190					343
1986	123	153	190				466
1987	118	123	153	190			584
1988	113	118	123	153	190		697
1989	108	113	118	123	153	190	805

According to those figures, there will be 805 thousand Federal employees in the Social Security system in 1989 who would not be in the system absent a change in current law.

Having determined the number of new hires and the retention rate, it next becomes necessary to determine an initial salary and the rate of increase of that salary.

We determined initial salaries from two separate sources. For Federal workers we had figures from OPM (enclosed) that indicate permanent new Federal hires come in at grade 5.2. In October,

Table B

NEW HIRES BY GRADE
FULL-TIME PERMANENT - GENERAL SCHEDULE & EQUIVALENT PAY PLANS
FY 81

Grade	Professional	Administrative	Technical	Clerical	Other	Total
1-2	-	92	1,082	10,357	490	12,021
3	-	38	3,641	15,588	1,489	20,756
4	-	187	4,857	8,564	3,817	17,425
5	1,633	1,729	3,752	2,675	976	10,765
6	-	32	816	789	595	2,232
7	3,720	2,160	1,546	343	55	7,824
8	-	33	204	25	8	270
9-10	3,796	2,705	1,006	59	9	7,575
11	2,070	1,291	303	14	1	3,679
12	1,534	797	178	11	1	2,521
13	590	323	24	2	2	941
14	421	157	-	-	1	579
15	558	124	-	1	-	683
16-18	21	8	-	-	-	29
All	14,343	9,676	17,409	38,428	7,444	87,300

Source: Occupational Dynamics Report - FY 81

1982, the wage of level 5.2 was $13,815; as per the Reagan budget we assume that that figure will be frozen until October, 1983. We assume, though, 5 percent per year increases after 1983: so in January 1984, Federal salaries for grade 5 level 2 will be $14,506. For postal workers, based on information from the NALC, we assume a starting salary in 1984 of $19,000 per year. Weighting the federal and postal salaries by the composition of new entrants, average starting salaries for new CSRS employees is estimated to be $15,870 per year in 1984.

After determining the beginning average salary, it is necessary to determine the rate of increase of each cohort's salary due to tenure (and independent of general wage increases). To make that determination we used data from the 1979 Current Population Survey. From that survey we estimated a regression relating the (natural logarithm of the) average wage to a constant, a tenure variable and a variable accounting for whether the individual is a federal employee or a non-federal employee.

According to the regression, wages increased with tenure according to the following pattern:

Increase In Wages From Year First Hired

Years from Hire	(percent)
1	4.83
2	9.69
3	14.55
4	19.39
5	24.20

According to the table, a new hire would make 4.83% more (independent of general wage increases) one year after being hired, 9.96% two years after being hired, and so forth.

To arrive at what the increase would be with inflation we overlayed those figures with a five percent per year general wage increase from 1984 through 1989. We thus generated the following wage patterns for new hires:

Average Wages For Cohort Hired In:

Average Wages In:	1984	1985	1986	1987	1988	1989
1984	15870					
1985	17468	16665				
1986	19303	18341	17497			
1987	21034	20153	19260	18372		
1988	23040	22085	21160	20222	19291	
1989	25152	24192	23190	22218	21233	20256

According to the table, the salary of an individual joining the Federal service in 1984 will be $15870 and will grow to $25152 by 1989; similarly, the salary of an individual joining in 1985 will be $16665 and will grow to $24192 by 1989.

To determine the receipts to Social Security from new Federal hires, it is necessary to apply the applicable tax rate. We assume the following tax rates: for 1984-1987 the tax rate is assumed to be 11.4%; for 1988 and 1989 we assume a rate of 12.12%. Those rates are rates assumed by the Report.

To calculate Social Security receipts from new Federal hires we averaged together for adjacent years, for each new cohort, the figures on new Federal hires or new hires returned (that reflects the fact that new hires don't all start in January or all leave in Janaury); we then multiplied those figures by the corresponding average annual wage for the cohort and then applied the Social Security tax rate. Because not all wages are subject to Social Security taxes we use the following factor to reduce Social Security revenues: 99 percent in 1984 and 1985; and 98 percent for the remaining years.

Based on the methods we have outlined, the following represents the year by year total receipts to Social Security from new Federal hires, and the cumulative total for each of the years:

Social Security Receipts From New Federal Hires
(Millions of Dollars)

	Annually	Cumulative Total
1984	152	152
1985	497	649
1986	777	1426
1987	1209	2635
1988	1588	4223
1989	1998	6221

According to the results we have presented the cumulative total for bringing new hires into the system will be $6.2 billion from 1984 through 1989. That is far less than the figures presented in the Report and reported to us by Social Security.

According to the Social Security the savings will be $12.1 billion, which is almost twice the amount computed by us.

The major sources of the discrepancies between us and Social Security are as follows:

1. Social Security assumes a starting salary in 1984 for the average new hire of $20210. That figure is about a GS level 9. According to "A Statistical Profile of the Federal Civilian Workforce" published by OPM in June, 1980, the average grade level of the workforce was a GS level of 8.2 in 1979. Social Security thus assumed the average new hire will come in at a level exceeding that of the current average Federal worker.
2. Social Security assumes the average number of new hires in 1984 will be 270000. According to OPM the average new hires that in 1984 can be expected to go onto CSRS (which is the relevant consideration) will be 190000.

III. Long Term Calculations

To estimate the long term savings to Social Security for including new Federal hires we use the methodology of the Social Security Administration. That methodology views the cost and revenues to the system as being a percentage of FICA wages.

The model we use for estimating cost and revenues is biased towards giving results that are upper bounds on the savings that Social Security can expect from new hires. The model has the following aspects:

1. We will assume no inflation and that productivity growth in the Federal and private sectors is the same; the import of that assumption is that we can use 1984 figures without having to update them for inflation and productivity;
2. We will assume that the Federal Work Force will grow to a state equilibrium of 3 million full time workers in CSRS (this is consistent with a 3 per cent per year retirement rate and 90 thousand retirees per year);
3. We will assume that of a cohort of 190 thousand new hires, the quit rate after the fifth year, when the remaining number of workers is 108 thousand, will be about 800 per year; thus after 27 years the number remaining will be about 90 thousand (+ 108 - .8 x 22) and the entire Federal work force will be covered;
4. We will also assume that Federal workers work for 10 years after leaving Federal employment;

5. We assume in-grade increases will be consistent with our regression; thus, the ending salary of the average Federal worker will be about $28748 on retiring, and we assume Federal workers work for an average of $30000 per year after leaving Federal employment;
6. We will assume that of the number of retirees for the fully matured system of Federal retirees will be as follows: 580 thousand nondisability annuitants 65 and over and 208 thousand survivors of deceased annuitants; those figures were determined from the number of survivors 65 and over in Appendix III-B of the Board of Actuaries of the Civil Service Retirement System, Fifty-Seventh Annual Report and the number of survivors of deceased annuitants 60 and over from Appendix III-E of the same report; those figures were updated to take into account the increased size of the Federal workforce to 3 million; of the 580 thousand nondisability annuitants we arbitrarily assumed a spouse present for half;
7. We will assume, for reasons that will be apparent below, that the average tax rate on CSRS annuities is 20 percent;
8. We assume that the applicable Social Security tax rate is .1212 and for simplicity we assume that is true for all years even though in the early years the rate will be .114; also for simplicity we assume that 98 percent of government wageswill be covered;

9. Our assumption on FICA wages is that in 1984 they will be $1.397 trillion; that was determined by first dividing 1981 personal contributions to the old age survivors and disability insurance by .057 and adding in 1981 self-employed contributions divided by .093; the results were then increased at a compound annual rate of 5 percent to yield the 1984 figure.
10. We assume that of the eighteen thousand individuals who leave government service after the sixth year (the difference between 108 thousand and the 90 thousand that retire) that one-third leave for other positions and two-thirds leave for reasons of disability; of those leaving for disability reasons, we assume equal numbers leave in each year and use the salary at the salary at the time of leaving for determining disability benefits; and we assume that each one leaving has a spouse or a child; of those leaving to enter the private sector, we assume that they were in government an average of fifteen years, at an annual salary of $21,000, and in the private sector an average of 20 years at an annual salary of $25000, and, on average, work two fewer years then government workers; the incremental benefits to that group, from Social Security, for working in the government will be $155 per month.
11. Finally, we assume maximum benefits for 1984 will be raised to $692 per month.

The way our model is laid out we assume that for the first thirty-seven years after new Federal hires come into the system there are no retirees from those new hires. There will, though, be disabled individuals. The first twenty-seven of those retiring will be spent in the government and the remaining ten years in private industry; the cost of including the additional twenty-seven years of the new hires in Social Security is the incremental benefits due to the twenty-seven years in government service. Because we assume no retirees until the thirty-seventh year, the results presented here will be an upward biased figure in the estimate of savings from including new hires in Social Security.

Based then on the assumptions we have made, the Social Security system can expect an average 33.7 billion of FICA wages per year for the first 27 years government workers are included in Social Security. That would yield, on average, 4.08 billion to Social Security; the assumptions about disability yields an average of $459 million per year paid out for disability over the first 27 years. So the net savings to Social Security from new Federal hires over the first twenty-seven years is 0.26 per cent =(4.080 - .459)/1397 x 100).

For the next eight years before new hires retire, or those who left government service earlier retire, the net savings to the system is 0.44 per cent. That is arrived at as follows: the full complement of government workers yield have FICA wages of $67.00 billion which yields $8.121 billion in Social Security revenues; the full complement of disabled workers will ultimately absorb $2.397 billion of those revenues. Incrementing the disability amount and taking the difference between it and revenues and dividing by $1397 billion yields 0.47 percent.

In the 36th year, the one-third of the 18000 who left government service before retiring from CSRS begin to retire. Based on our assumptions, they ultimately absorb $750 million from Social Security. That number is incremented in equal amounts beginning in the 36th year until there are ten cohorts receiving $750 million.

In the 38th year, Federal workers who would have retired from CSRS begin retiring. For the ten years that those Federal workers work in the private sector they would have received $4.215 billion in benefits; for the additional 27 years in the Federal sector they receive $7.751 in benefits (we are assuming a $692 per month cap on retirement benefits). So the incremental cost to the system of new Federal retirees is $3.536 billion. We increment the number of retirees from the 38th year through the 48th year until a full complement of retirees is present.

Averaging in the one-third who left the government early and those who would have retired from CSRS yields for an eleven year period (from the 36th through the 47th year) a net savings to the system of 0.34 percent.

From the 48th year through the 75th year the net savings is 0.14 percent. That is made up of $8.121 billion in revenue less $2.397 billion in disability payments less $3.536 billion in payments to retirees who would have been on CSRS less $750 million to retirees who left early (so we have 100 x (8.121 - 2.397 - 3.536 - 0.750)/ 1397 = 0.14).

By averaging the figures derived we come up with a maximum savings to Social Security over the next seventy-five years of new Federal hires of 0.24 percent (= (26 x 0.26 + 8 x 0.44 + 11 x 0.31 + 28 x .014)/ 75). When we include non profits the average savings come to 0.25 percent.

We note, though, that that figure overstates the budget effect of new Federal hires. One thing we have to take into account is the loss to the budget of taxes that Federal retirees pay on Civil Service annuities. Taking into account those taxes (at the 20 percent rate assumed above) reduces the net effect of covering new Federal hires from 0.25 percent to 0.23 percent. That is nearly 25 percent below the amount claimed in the Report for new Federal hires and non-profit.

Again, we emphasize that the figures we have presented here probably bias upward the savings to Social Security. Small changes in retirement lines, or a different retirement pattern then assumed here, could easily wipe out any of the savings to Social Security from covering new Federal hires.

NATIONAL ASSOCIATION OF LETTER CARRIERS
LETTER CARRIERS BUILDING
100 INDIANA AVENUE, N. W.
WASHINGTON, D. C. 20001

VINCENT R. SOMBROTTO
PRESIDENT

AREA CODE 202
393-4695

February 21, 1983

Dear Member of Congress:

As you are well aware, finding effective solutions to the short-run and long-run financial problems confronting the Social Security System is one of the major challenges confronting the Congress at this time. The National Association of Letter Carriers, AFL-CIO, is firmly committed to the preservation of the Social Security System and supports any and all attempts which would honestly and realistically place Social Security on a firm financial footing. Unfortunately, however, present attempts to deal with this issue represent a distortion of the legislative process and an affront to those Americans who believe that democratic values and practices require careful and deliberate consideration of the major public policy questions confronting the American people.

A case in point is a letter of February 7, 1983, to every member of the House of Representatives from the Chairman and Ranking Minority Member of the House Committee on Ways and Means and the Chairman and Ranking Minority Member of the Committee's Social Security Subcommittee. The staff memorandum accompanying this letter purports to be an honest discussion of arguments in support of a proposal of the National Commission on Social Security Reform that newly-hired federal and postal workers be brought under the Social Security System. In reality, the memorandum is a collection of deliberate misstatements of fact and distortions which only serve to mislead Members of Congress.

Attached you will find a document which corrects these misstatements and sets the record straight. This document will, I am confident, convince you that the House Ways and Means Committee's staff memorandum should be disregarded because it is both misleading and factually in error.

I realize, of course, that you still may have questions. If so, I would be pleased to have members of my staff meet with your staff to discuss this document and other aspects of the proposal to bring new federal and postal workers under Social Security. To arrange such a meeting, please call George Gould, my Legislative Assistant, at 393-4695.

I thank you for your consideration of these issues. I am confident that a careful review of the enclosed document will lead to the conclusion that new postal and federal workers should not be covered by Social Security.

Sincerely yours,

Vincent R Sombrotto

Vincent R. Sombrotto, President

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February 21, 1983

SETTING THE RECORD STRAIGHT:

A Reply by the National Association of Letter Carriers to the House Committee on Ways and Means' Staff Memorandum on Social Security Coverage of New Federal and Postal Workers

The enclosures contained with the February 7th letter from the leadership of the House Committee on Ways and Means, organize arguments in support of covering new postal and federal workers under Social Security into four major topics: the impact of coverage on the Social Security System; the impact on the Civil Service Retirement System (CSRS); the impact on the federal budget; and finally, the impact on affected workers. This document treats these major topics in a similar format below, and shows that the arguments put forth in the Committee's staff's materials are simply and conclusively wrong.

I. IMPACT ON SOCIAL SECURITY SYSTEM

1) The Ways and Means Committee's staff analysis states that by bringing new federal and postal workers under Social Security, "there would be an immediate short-term increase in social security trust fund revenues of about $10-13 billion, 1983-1989." This is simply wrong. An independent economic consulting firm has analyzed this question using numbers supplied by the government itself (chiefly from the U.S. Office of Personnel Management). It has reported back that the short-term increase in Social Security revenues would be, at most, $5.7 billion. (The NALC testified on February 8 before the Social Security Subcommittee of the Committee on Ways and Means that this increase would be $6.2 billion, given the most liberal assumptions; based on new information available, this number has been revised downward to $5.7 billion.) The Congressional Budget Office has independently studied the issue and their findings support NALC's contentions. Consequently, the $10-13 billion figure presented by the Committee staff is totally without foundation.

2) The Committee staff also states that long-term savings for Social Security resulting from coverage of new postal and federal employees would be .28 percent of payroll. Again, this is simply incorrect. NALC's consultants have studied this question carefully and conclude that the savings is only .18 percent of payroll -- which means that the Committee staff document has exaggerated the long-term savings by one-half. Moreover, any long-term savings is obviously an average between larger savings in the early years -- which

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have been exaggerated -- and much smaller savings (if not negative) in the later years as more and more federal and postal workers covered by Social Security would retire. In fact, our analysis suggests that in 50 years the savings would be so infinitesimal as to be almost negligible.

3) The Committee staff argues that whatever long-range savings there might be would result, in part, from the elimination of the so-called "windfall now available to Federal retirees who collect social security based on very few years of work covered by social security." In "Questions and Answers on Coverage of Federal Workers under Social Security" which was enclosed with the letter of February 7, the Committee staff states that "most" of the 73 percent of all Federal retirees over 62 who are entitled to Social Security benefits "are collecting a heavily-weighted social security benefit that they paid relatively little for, in comparison with a worker in private industry who made similar wages that were covered by social security." Absolutely no support is given for such an assertion. In fact, there is no evidence at all which would support the view that "most" of the 73 percent of federal retirees collecting Social Security are receiving so-called "windfall" benefits. Of course, there is no doubt that, given the present weighting of Social Security benefits, some postal and federal retirees do receive "windfall" benefits. Far more common, however, are those federal and postal employees who work for the government and a private employer at the same time for many, many years. As NALC testified before the House Committee on Ways and Means on February 8, 1983, Congress has the ability to correct any "windfall" problem which might exist. But correcting this problem does not require bringing new federal and postal workers into Social Security.

II. IMPACT ON THE CSRS AND THE FEDERAL BUDGET

The Committee staff offers several points purportedly explaining that coverage of new postal and federal employees would have no significant impact on either the Civil Service Retirement System or the federal budget as a whole. These points are vague, contradictory, misleading, and incomplete.

First, the Committee staff admits that revenues to the CSRS trust fund will be reduced as new workers pay into the OASDI fund instead of CSRS. It then asserts that benfits currently being paid out of the CSRS trust fund would not be affected. Nothing could be further from the truth. The Committee staff's assumption, that coverage of new hires would occur in splendid isolation, indicates severe myopia, if not blindness to reality. A cutoff of money to the CSRS trust fund from new hires would obviously cause the fund to shrink as benefits are paid out. Long before the CSRS goes bankrupt, which would probably occur in the next 20 years, action would be taken to cut benefits. Current proposals by the Reagan Administration to slash benefits are only a mild indication of the future attacks on the CSRS benefit structure that coverage of new hires would cause. This can be seen clearly without a crystal ball.

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It is worthwhile to note in passing that the staff's memorandum frequently reminds Members of Congress that employees contribute "only" 7% of their salaries to the CSRS, while the employer contributes some 29% of payroll. The obvious implication is that federal workers are undeserving of their retirement annuities. This is an unjustifiable political attack, and not the "useful information" the Committee staff claims it to be. It would be far more "useful" to point out that in the private sector, various mixtures of employee and employer contributions support pension plans, and that furthermore, many plans are supported entirely by employer contributions.

Turning to the budgetary impact, the Committee staff asserts that since part of the federal government's contributions to the CSRS trust fund is an intra-governmental transfer, this contribution has no bottom-line budget impact. It is implied that the government could, at no cost to the overall budget, simply increase the amount of this transfer and thus ensure the sanctity of the trust fund. Once again, the Committee is clouding the real issues.

While intra-governmental transfers have no effect on the budget, benefit payments to CSRS annuitants do. These payments cannot be made through intra-governmental accounting devices. They do affect the CSRS trust fund and the bottom-line budget figures. Much of the money used to pay these benefits comes from employee and matching employer contributions to the CSRS trust fund. Social security coverage of new workers would reduce these contributions, and the CSRS trust fund would suffer a direct loss. Obviously, there would be less money to pay annuity benefits. Assertions that the difference could be made up with new intra-governmental transfers are belied by unavoidable reality: Payments to CSRS annuitants do not come from dollars conjured up in a vacuum; they represent government spending and are reflected in the budgetary bottom line. To fulfill its annuity obligations, the government must simply come up with the money. Coverage under Social Security means less money going into the CSRS trust fund, and the government will have to come up with the difference.

Besides clouding the issue of interfund transfers and benefit payments, the staff memorandum ignores the long-term budgetary impact of covering new federal and postal workers. Under current law most CSRS annuity benefits are subject to federal income tax. By covering those workers, tax revenues from the next generation of federal and postal retirees would be lost.

Along with its argumentative assertions regarding intra-governmental transfers and its lack of concern with long-term budgetary concerns, the Committee staff states, in an obvious contradiction, that Congress could indeed "appropriate funds to the CSRS trust fund to make up for revenues lost because of social security coverage." "However," the memorandum continues, "there would be no real effect on the security of the retirement benefits due in the future, since CSRS benefits are not guaranteed by existing revenues in the trust fund, but by the taxing power of Congress." These benefits "can be increased or reduced at any time by Congress, regardless of the reserves in the CSRS trust fund."

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So, after arguing that the trust fund would not be in danger, the memorandum asserts that the fund is irrelevant -- that Congress itself is responsible for the payment (or non-payment) of annuity benefits, and thus there are no guarantees. Concern about the trust fund, it is implied, is therefore misdirected. This argument is utterly specious. The CSRS trust fund was created specifically to protect the annuity rights of federal and postal workers. Savaging the fund imperils those rights. And it is not news that Congress has final responsibility for fulfilling the government's annuity obligations to its employees. These obligations include making benefit payments and preserving the health of the trust fund.

The Committee staff also asserts that long-run CSRS benefit obligations (the unfunded liability) would decrease as a result of coverage, as workers receive more of their total pensions from Social Security. By focusing on an effect occurring a full generation into the future, this statement ignores the immediate reality of benefit obligations to present postal and federal workers. CSRS trust fund obligations to these workers, it must be repeated, would be imperiled by coverage of new workers.

III. IMPACT ON AFFECTED WORKERS

The Committee staff memorandum addresses the impact of coverage on affected workers in three ways; they are treated separately below.

A.No Effect on Civil Service Retirees Claimed

The memorandum asserts that civil service retirees would not be affected by coverage of new workers under Social Security. The rationale given for this bold statement is that retirees' benefits now and in the future will depend on the Congress' commitment to continue to pay full benefits.

Such reasoning is bizarre. It assumes that Social Security coverage of new federal and postal workers would occur in total isolation from other events. It thus ignores the fact that Congress' commitment to continue payment of full CSRS annuity benefits will be affected by its action on the matter of Social Security coverage. But will that commitment to federal and postal workers be fulfilled in the face of a shrinking CSRS trust fund and rising federal deficits? The Committee staff conveniently fails to provide an answer. Instead, it implies that postal and federal workers should stand idly by while their retirement system is mutilated, piece-by-piece, beyond recognition.

B. Better Off Under Social Security?

The Committee staff memorandum claims on page 3 that "Many Federal workers would be better off if covered by social security." The memorandum identifies several areas where this is supposedly true; all of these examples represent severe over-reaching, and some are patently false.

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1. Workers Leaving Federal Employment. The memorandum asserts that over half of all workers entering federal employment leave the federal service with no eligibility for CSRS benefits. And, says the memorandum, those workers who take their own contributions with them lose the employer's contibutions, and receive no interest on contributions after the first five years.

These claims are extremely misleading. First, workers leaving the government with less than five years of service have the right to take all of their contributions to CSRS, plus interest, with them when they go. Social Security-covered workers have no such right. Second, workers with more than five years of service who leave the government have the option of either taking their contributions with them, or leaving them in CSRS and becoming eligible for a CSRS annuity later in life. So those who leave without CSRS eligibility after five or more years of employment do so entirely by choice, and receive a refund of their contributions. Therefore, regardless of years of service, workers leaving federal jobs presently have more and better options than those covered by Social Security.

2. Annuity Reduction for Survivor Coverage. The Committee staff memorandum states that a CSRS-covered worker, but not a Social Security-covered worker, must take a reduction in his or her annuity to obtain survivor coverage. It also states that low-paid federal employees would, under social security, receive the "advantage" of a benefit weighted toward them.

These comparisons are phony both in concept and on the facts. First, CSRS is a full-benefit retirement system, while Social Security provides only an income floor for workers and their survivors; the two systems are not comparable. Second, the facts illustrate this principle quite clearly: Even the very lowest-paid new federal hire, who becomes a career civil servant and opts for the greatest possible surivor benefit and thus the greatest possible annuity reduction, will still receive more from CSRS than he or she would receive from Social Security -- notwithstanding the weighting of Social Security benefits.

3. Gap in Social Security Disability Protection. The Committee staff asserts that federal workers leaving federal service are without disability protection for several years, because Social Security requires recent covered employment for disability protection. This gap in disability protection, which affects all workers without recent Social Security-covered employment, is an excellent reason for reforming the Social Security system. The problem has been studied in depth for over thirty years -- by the Committee on Ways and Means and others -- and solutions have been offered. But this gap is no excuse whatever for putting postal and federal workers under Social Security.

C. Proposed Supplemental Plan

The Committee staff's presentation also refers to a supplemental retirement plan which the National Commission on Social Security has recommended

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Congress develop for those postal and federal workers who would be brought under Social Security. It should be emphasized that the Commission has not formally made any specific recommendations concerning the nature of such a supplemental plan. Consequently, those who are being urged to support Social Security coverage for new postal and federal workers are being asked to accept blindly assurances that there will be a supplemental retirement plan providing sufficient benefits so that no new postal or federal workers would be affected adversely. But the only specific supplemental plan which has been aired --that by the Reagan Administration --makes it clear that new postal and federal workers will have their benefits severely diminished. In testimony before the Subcommittee on Compensation and Employee Benefits of the House Committee on Post Office and Civil Service on February 16, 1983, Office of Personnel Management Director Devine unveiled an Administration proposal which would result in new postal and federal workers paying 11 percent in total OASDI and supplemental retirement contributions (as opposed to the present CSRS contribution of 7 percent), for future benefits which would be far less than those received by current federal and postal retirees! How, then, can Congress expect postal and federal workers to accept assurances that Congress will create an adequate supplemental plan when the only specific plan to be proposed would have a devastating impact on postal and federal workers?

Chairman PICKLE. We thank you, Mr. Sombrotto. Now, Mr. Peirce, if you will present your testimony.

STATEMENT OF JAMES M. PEIRCE, PRESIDENT, NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Mr. PEIRCE. Thank you, Mr. Chairman. My name is Jim Peirce and I am the president of the National Federation of Federal Employees. I thank you for the opportunity to appear here today to present NFFE's position on those aspects of the National Commission on Social Security Reform's recommendations relating to mandatory coverage for Federal employees hired after December 31, 1983.

I will submit for the record my prepared statement and briefly summarize its main points.

Since mandatory coverage for Federal workers was first proposed many years ago, NFFE has steadfastly opposed its inception. Our arguments are as valid today as they were then. Universal coverage would not help social security; it would destroy a perfectly good staff retirement system, and it would end up costing the taxpayers more in the long run.

Social security's major problems are well known to almost everyone with even a limited knowledge of the system. The number of beneficiaries is growing too rapidly, and the average level of benefits exceeds the average amount of contributions. Universal coverage would not solve either of these problems.

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Indeed, as the Federal Reserve Bank of New York logically noted in a recent report, in the long term, universal coverage leads to an increase in the number of beneficiaries who will ultimately take more out of the system than they pay into it.

The most troubling aspect of the universal coverage debate is that the long-term liabilities are being ignored in favor of the short-term benefits.

Civil service retirement, the major attraction of a Government career, would also suffer. Once Federal employees enter social security, contributions to the Federal retirement program would dwindle, and eventually disappear. In just a short time, the retirement fund would be bankrupt and Congress would be forced to appropriate enough money each year to pay benefits.

Even today we can see the Reagan administration looking ahead to this possibility. Perhaps the most serious cutbacks ever proposed for civil service retirement are now before the Congress. And as the Federal Government takes on more responsibility for the program's funding, we no doubt will see much harsher proposals in an effort to keep costs at a minimum.

There is no data to show the importance of the civil service retirement system to Federal personnel management, but there is no question that this system is by far the most attractive aspect of a Government career. What else is there, really? Federal pay is now 14 percent below private industry and will probably drop even further behind this year.

Despite popular myth, civil service benefits lag far behind private sector standards. The Federal employees health benefits program, for example, once the finest in the Nation, is now one of the most expensive. On top of all of this, the present administration is waging one of the most vicious campaigns ever seen against Federal employees, demeaning their integrity and competency at every opportunity.

The civil service retirement remains as perhaps the only aspect of Federal compensation which fairly rewards workers for their service to the Nation.

Yet, with universal coverage and benefit cuts that would almost certainly ensue, nothing would be left to attract and retain talented individuals to Government careers.

Those who argue that universal coverage would reduce Government costs invariably cite the Government's contribution to the social security retirement system as being excessive. But an examination of the Government's contribution to the civil service retirement fund belies this thesis.

In fiscal year 1981, the Government paid $18 billion into the retirement fund distributed in this matter: $4 billion to match employee contributions, $5 billion as the amortized amount of the unfunded liability that was created largely between 1920 and 1956 when the Government failed to meet its fund obligations, and $9 billion interest on the unfunded liability.

The fact is that the unfunded deficit originated because the Federal Government failed to pay its share into the fund from 1920 to 1956. In 1969, when the law was amended to take care of the deficit, Congress decided instead to amortize the debt, exposing it to the devastating effects of inflation. In effect, the Government borrowed from the retirement fund, choosing to pay off the balance in annual installments rather than in a single payment.

As you can readily see, the only costs that would be reduced under universal coverage would be the money needed to match employee contributions. And these savings would only be on paper since the Government contribution to social security as well as the supplemental Federal retirement program would experience an equivalent, if not greater, increase.

Keep in mind also that tax revenues would be lost if Federal workers were brought under social security. In fiscal year 1981, Federal retirees returned $1.5 billion of their annuities to the U.S. Treasury in the form of taxes, and $900 million to the States. Social security benefits are not taxable.

NFFE shares all America's concern for the future solvency of social security and its relationship to the Federal budget and personnel system. In our opinion, however, mandatory social security coverage of the civil service would have a negative impact on each of these areas. We hope, therefore, that the American people, media, and the Congress reject the concept in favor of productive alternatives.

This concludes my statement. I will be happy to answer any questions, Mr. Chairman.

[The prepared statement follows:]

STATEMENT OF THE NATIONAL FEDERATION OF FEDERAL EMPLOYEES

Mr. Chairman and Subcommittee Members: The National Federation of Federal Employees is very pleased to appear this morning to comment on the report of the National Commission on Social Security Reform. NFFE is the oldest union of Federal workers and has played a larger role in the creation and improvement of the civil service retirement system than perhaps any other organization. We are deeply concerned with the Commission's recommendation and welcome the opportunity to present opposing views. Our statement will focus almost exclusively on the proposals involving Federal Workers and retirees: mandatory social security coverage for Federal employees hired after December 31, 1983 and the reduction in windfall benefits.

MANDATORY SOCIAL SECURITY COVERAGE

NFFE's major concerns regarding mandatory coverage of Federal workers are the impact on: (1) the Federal budget, (2) the Federal workforce and (3) the social security system. We continue to believe all areas would suffer if universal coverage were implemented.

BUDGET

Those who argue that universal coverage would reduce Government costs invariably cite the Government's contributions to the civil service retirement system. The system is funded through matching employer-employee contributions equal to seven percent of payroll. Critics argue, however, that Government contributions far exceed seven percent and if employees were brought under social security, much of this expense would be eliminated.

But an examination of the Government's contribution to the civil service retirement fund belie this thesis. In fiscal year 1981, the Government paid $18 billion into the retirement fund distributed in this manner: $4 billion to match employee contributions, $5 billion as the amortized amount of the unfunded liability that was created largely between 1920 and 1956 when the Government failed to meet its fund obligations and, $9 billion interest on the unfunded liability.

The fact is that the unfunded deficit originated because the Federal Government failed to pay its share into the fund from 1920 to 1956. In 1969 when the law was amended to take care of the deficit, NFFE proposed that Congress wipe out the deficit by paying in the amount due. However, Congress decided instead to amortize the debt, exposing it to the devastating effects of inflation. In effect, the Government borrowed from the retirement fund, choosing to pay off the balance in annual installments rather than in a single payment.

As you can readily see, the only cost that would be reduced under universal coverage would be the money needed to match employee contributions. And these savings would only be on "paper" since the Government contribution to social security as well as supplemental Federal retirement program would experience an equivalent, if not greater, increase.

For example, if all new Federal employees were brought under social security next year, we can assume that by the year 2010 virtually all active civil servants would be under a combined social security-supplemental pension plan. Assuming further that few changes are made to the social security system, the Government's share of costs could easily reach 12 percent (7 percent social security, 5 percent supplemental) of an estimated $273 billion payroll, or $33 billion. However, the Government would still be making payments to the old civil service retirement system, which would amount to $59 billion.[1] This would bring the total Government expense to $92 billion.

If, on the other hand, Federal employees remain within their current annuity program, Government contributions would total $89 billion in 2010,[2] or actually $3 billion less than under universal coverage.

Keep in mind, also, that the tax revenues would be lost if Federal workers were brought under social security. In fiscal year 1981, Federal retirees returned $1.5 billion of their annuities to the U.S. Treasury in the form of taxes and $900 million to the states. Social security benefits are not taxable.

WORKFORCE IMPACT

There is no data to show the future impact of universal coverage on the overall quality of the Federal workforce. The most attractive aspect of a civil service career has been the Federal retirement program. Federal pay is, on the average, 14 percent below private sector rates for similar jobs. Health and life insurance, as well as other Federal benefit programs, are also below private sector standards. Morale, too, is at an all-time low as a result of the continuous stream of criticism from recent Administrations.

The Federal workforce has and is experiencing a brain drain due to these unwarranted attacks on the credibility of the Federal employee and their level of pay and benefits. One can only conclude, therefore, that forcing the Federal employee into the social security system, which is not wanted, will have a significant negative affect on the quality of future Federal personnel.

Critics respond to this argument by pointing to the hundreds of applicants for every Federal job opening. But the critics have failed to evaluate the quality of the applicants. And it is a virtual certainty that more and more talented individuals would look to the Government only as an employer of last resort should the Federal retirement system be integrated with social security.

Keep in mind that the composition of the Federal workforce has shifted gradually from one largely clerical and blue-collar to one dominated by white-collar professionals. For the Government to be able to hire quality personnel, it must be able to offer a comparable compensation package. Yet, in the politically-charged atmosphere of Washington, it is doubtful that competitive salary schedules will be restored for a very long time.

DRAINING THE SYSTEM

NFEE's final concern with universal coverage is its impact on the social security system. Mandatory coverage of Federal employees would certainly generate new revenues for social security in the short-term. If all new employees were brought under the system, it is said they would contribute between $10 and $20 billion over the next six years (1984–1989).

While universal coverage would generate large amounts of new income in the near future, it would create even larger liabilities for the system many years from now when Federal workers under social security reach retirement age. Each dollar paid into social security yields more in benefits. According to a recent report by the Federal Reserve Bank of New York, workers entering social security today will get back 30 percent more than their investment after they retire at 65. Hence, the $10–

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[1] Edwin C. Hustead, Actuarial Consulting Services, Hay Associates.

[2] U.S. Civil Service Retirement System; Sept. 30, 1981 Annual Report.

$20 billion which Federal employees contribute to social security over the next six years would create future liabilities of between $13 and $26 billion.

In its report, "Social Security; An Analysis of its Problems," The Federal Reserve Bank of New York echoed NFEE's concerns by stating, "In the long term, universal coverage leads to an increase in the number of beneficiaries who will ultimately take more out of the retirement system than they pay into it."

This is the most troubling aspect of the universal coverage debate; that the long-term liabilities are being ignored in favor of the short-term benefits. Universal coverage, in fact, is simply a delaying tactic by which current policy-makers can push back the funding problems of social security and leave them for the next generation to solve.

REDUCTION IN WINDFALL BENEFITS

To begin with, windfall benefits are not windfalls at all, but benefits earned by Federal employees under the same legal conditions that apply to all citizens. In fact, the Federal employee either working in private sector before or after Federal service has no choice of paying into social security as the law requires the social security tax be paid.

The social security benefit formula is constructed in such a way as to provide "social adequacy." The person whose income has been low over a career covered by social security, and the person with minimum quarters of coverage regardless of earnings, receive a relatively higher benefit than the person who has had high earnings over a long career of covered employment. Many of the public sector retirees who qualify for social security benefits do so on the basis of minimum or near-minimum periods of employment under social security, whether their earnings have been high, medium, or low.

No public sector retiree qualifies for a social security benefit without working and paying for it regardless of whether his contributions to social security were made before, during, or after his government service. Thus, whether the recipient has earned different retirement benefits, from government or private sector employment not covered by social security, is immaterial. The point is that an earned benefit is an earned benefit which must be paid. If a private corporation, in fact, chose not to provide a benefit earned by one of its employees, the corporation would be in violation of the law.

Why is it that individuals with substantial "non-earned" income, such as dividends on investments, do not see their social security benefits classified as windfalls and threatened with cutbacks. The reason, we believe, is that Federal workers make a much easier political target. Sound policy and equity have nothing whatsoever to do with it.

ALTERNATIVES

The difficlties facing social security are well-known: a serious cash shortfall over the next six years of between $150 and $200 billion created largely by the current economic recession; a population that is generally growing older and living longer, placing a greater burden on active workers whose payroll taxes are used to pay benefits for current retirees; skyrocketing health care costs. Universal coverage would not solve these problems. It would, in fact, aggravate them. A strong economy that will provide jobs for this Nation's over 12 million unemployed Americans could lessen many of our problems, including social security's funding shortfall. The following proposals offer other real solutions.

1. Extend indefinitely the current authority for interfund borrowing. This would give administrators greater flexibility during emergencies.

2. Separate the non-retirement aspects of social security from the retirement plan and fund these benefits through general revenues. These programs are based on need rather than employee contributions and should not, therefore, be funded by the payroll tax. Additionally, a study should be made regarding all social benefit areas with an eye to eliminating redundancy and consolidating programs.

By non-retirement benefits, for example, we mean payments to spouses and dependents made during the beneficiaries lifetime. This restructuring of the system will make it a more creditable old-age insurance program. Any restructuring of the system should be phased-in in such a manner that employees and retirees will not be adversely affected.

Social security was never intended to serve as the sole source of income upon retirement. There should be greater incentives for employees to participate in individual or work-related retirement plans, minimizing the future dependence on social security and pressure to expand the benefits from social security. Maximum contributions to Individual Retirement Accounts should be raised, and tax rates lowered on payments to pension programs. We must ensure that all citizens in this affluent society can maintain a reasonable standard-of-living upon retirement.

3. The Federal Government should embark on a comprehensive plan to contain future health care costs, which have risen nearly 75 percent in 3 years. If successful, the plan would save billions in annual medical fees and rein in the soaring cost of the Medicare program.

4. Under present law, social security benefits are reduced by $1 for every $2 of earned income over $6,000 a year received by a beneficiary between the ages of 65 and 70 (individuals over 70 are not subject to the reduction). Income from investments and pensions, however, are excluded from the earnings test. There should be a new earnings test to include income from pensions and investments. When income from these sources, work, and social security exceeds a high level, perhaps $25,000 annually, the excess would be subject to taxation and all such taxes would be returned to the social security trust funds.

5. Employees who choose to continue working at age 65 rather than receive their social security benefits have their benefits raised by three percent for each year they stay on the job. The three percent bonus is not a realistic incentive. It should be raised substantially if we expect older employees to remain in the workforce and ease the burden on the social security system. This proposal incidentally was also endorsed by the National Commission on Social Security Reform.

NFFE shares all Americans' concern for the future solvency of social security and its relationship to the Federal budget and personnel system. In our opinion, however, mandatory social security coverage of civil servants would have a negative impact on each of these areas. We hope, therefore, that the American people, media and the Congress reject the concept in favor of productive alternatives.

This concludes my statement. I will be happy to answer any questions.

Chairman PICKLE. Thank you, Mr. Peirce. Now, Mr. White? Mr. Robert L. White.

STATEMENT OF ROBERT L. WHITE, NATIONAL PRESIDENT, NATIONAL ALLIANCE OF POSTAL AND FEDERAL EMPLOYEES

Mr. WHITE. Mr. Chairman and members of the House Ways and Means Subcommittee on Social Security, I am Robert L. White, national president of the National Alliance of Postal and Federal Employees. We are an independent labor union with 127 locals in 37 States, the District of Columbia, and the Virgin Islands.

I am here today to represent my members in opposing the Commission's proposal to require mandatory social security coverage for new hire Federal and postal employees. Our objections probably do not vary greatly from those of other organizations speaking out against this dastardly plan.

However, we may be different in that we represent a minority of postal and Federal workers, and it would seem that our views are important because in this instance, postal and Federal workers are together on a matter that will seriously alter their lives and the well-being of their dependents.

Apart from the injustice of forcing Federal and postal employees into an ailing system of social insecurity, this proposal is obviously designed to destroy the present civil service retirement system and will ultimately, undoubtedly, cost the taxpayers millions of dollars.

The civil service retirement system cannot survive without a constant influx of new enrollees. When no new people are brought into the program, it will be incumbent upon the Government to continue to pay already earned benefits to those who are eligible and entitled to receive them.

It should not take very long for whatever administration we are under at that time to begin complaining about the large contribution that postal and Federal workers are making to the national debt. It will be then when a time honored profession—the civil servant will become a financial drain on our society.

The pension plan has always been one of the main attractions for joining the Federal work force. To remove this important incentive is to issue an open statement to the world that our Government is not willing to attract the best.

One obvious result of no new Federal or postal workers joining the civil service retirement program would be that Congress would be forced to make annual appropriations in order to keep the system afloat. Employee morale would be devastated with one set of workers covered by the civil service retirement plan, which presently pays an average of $1,047 per month; and another group covered by social security, which presently pays an average of $406 per month upon retirement.

As president of a national organization for the past 12 years and president of my local 17 years before that, I have found that a good administrative rule to follow is to carefully examine the reasons why a situation was instituted before replacing it with something else. I have found it equally unwise to make dramatic changes in a program that is working perfectly fine.

Up to now, we have all witnessed the failure of each of the administration's attempts to cure the ills of this country. Tossing millions of people out of work has not decreased the budget deficit. It has made people more desperate. Raising the cost of the Federal employee health benefit plan has not improved health care. It has only succeeded in having people turned away from hospitals and doctors' offices in record numbers. Many of those needing health care are children.

The large sums of money being pumped into the Department of Defense has not removed the dark cloud of nuclear war from our heads. Likewise, mandatory coverage of Federal and postal employees under social security will not solve the problem of that agency.

It seems to me that Federal and postal workers have already borne more than their share of the problems that plague this country. What sacrifices are the rich and powerful being asked to make? I dare say that if corporate America were allowed to pay its fair share of taxes on its vast earnings, a budget deficit would be the least of our problems.

In conclusion, I urge the Congress, on behalf of the entire membership of the National Alliance of Postal and Federal Employees, to consider the dire consequences of this proposal before striking another blow to the already battered and beaten Federal and postal worker.

I wish to thank you for providing me the opportunity to express the views of the members of my union on this extremely important piece of legislation, and I will be glad to try to answer any questions that you may have.

Chairman PICKLE. Well, thank you, Mr. White. The Chair would observe that the panel which follows you gentlemen probably will present testimony somewhat in conflict with the testimony that you presented. I hope you will stay to listen so that you as well as the committee could have the differing views.

Let me ask first Mr. Matsui?

Mr. **Matsui**. Yes, Mr. Chairman. Could the four gentlemen please respond to the following statement. I have been as strong of a supporter of Federal employees as anyone in the Congress. I have a substantial number of Federal employees in my district and I have had the pleasure to work very closely with the Federal employee union members.

I have a little dilemma, which is shared by many members. We have been advised that if any part of the Commission's package is substantially modified then the coalition would fall apart. And, all of us are very concerned about resolving the social security problem in this year.

At the same time, I fully sympathize with the problems confronting Federal employees. You were burdened with the HI tax last year; you are now being hit with the universal coverage, and the administration has proposed major restructuring of your retirement benefits, much less the freeze on the wages of your employees.

The fundamental problem that we must address is whether to take Federal employees out of the proposal. Would that destroy the coalition that we have? This problem is not on the merits of the issue, but rather the politics of this matter.

Could you respond to my statement as we have to solve the social security problem?

Mr. **Peirce**. No. 1, we have said that the Commission's proposal does not solve the problem. It simply does not. It is a shortfall. It is like putting a Band-Aid on it. Why put the Band-Aid on now in such a short period of time and turn around and have the same thing confront us later? Bringing in the Federal employee does not solve the problem; it is going to add to the problem later.

My first recommendation is let's not put the Band-Aid on; let's move to solve the problem even if it takes a little longer. Interfund borrowing can be extended, or whatever is necessary to solve the shortfall. But let's get down to the heart of the problem. For too long all we have done is put Band-Aids on things.

Mr. **Sombrotto**. I have a different perspective because I think the overwhelming weight of evidence shows that the inclusion of Federal and postal employees is not going to help social security, and in almost absolute terms, is going to hurt the civil service retirement system.

But more than that, what kind of legislative process do we have when people tell us that removing an element of the package is going to endanger the package even though when we can show that that element does not help the ultimate solution of the problem?

Just last week, I read that the chairman of the House Ways and Means Committee said in a public statement that we have got to put this on a fast track because we do not want anybody jumping off. This has got to be on a fast train; we do not want anybody jumping off.

That troubles me as a citizen of this country that legislation has to be passed regardless of its merits or demerits. In our open system, our public demands that we examine every piece of legislation that is passed. We cannot allow ourselves to be caught in a political trap because an emotional atmosphere has been set up and we hold social security hostage to the inclusion of Federal and postal employees.

The Congress, the House Ways and Means Committee, this subcommittee must have the courage to deal with it on the level of what is best for all the people concerned and not be caught in a political deal that is nurtured and supported and minted in the dark hours of the night between people that are not trying to solve the problem but are trying to get over a short-term problem.

Mr. BILLER. Well, just along those lines, actually the same thing the Commission had an assignment it performed, and we again are pointing out through our own studies that they did not go into the consequences because if they did they would not have to issue an additional statement on January 31 and February 1. Obviously, people are beginning to know and this Congress does have a responsibility to study these matters, deliberate them. Because the point is if you say if one thing is bad in this thing, we are telling you what it is in our opinion. You are going to have to make the judgment based upon the evidence you find.

But the realities are, as the deliberative law-making body of the United States you have that obligation to examine that package. And if that is wrong and that is what it is, then I think you have got that obligation. So we are going to help you because we are going to try to reeducate the Congress and show them that the Commission is wrong. This is a window dressing job at a time when everybody is attacking big government, and it falls down on the millions below.

Mr. WHITE. Certainly, Mr. Chairman, we are not sure that there has been any adequate or any testing of this proposal, and we certainly question the wisdom of using the civil service retirement system as a testing ground for something of this nature. It affects too many American people.

I think if there was some way of knowing that by not infusing in new employees into any kind of a system or new funding of some nature into the new kind of system or proposal such as this, would not hurt the present program, we may be better able to go along with it. But right now it looks like it will destroy the civil service system.

Mr. BILLER. And they should look at the ultimate cost to the taxpayer, on about $538 to $640 billion in closing out this system.

Chairman PICKLE. Mr. Archer?

Mr. ARCHER. Thank you, Mr. Chairman. I want to thank you gentlemen for coming and testifying before our committee, and I must say that I agree with you that there should be deliberate consideration of anything that is as far reaching as the proposal that the Commission recommended.

I was a member of the Commission and I dissented and did not agree with the Commission's recommendations.

Having said that, I agree with you also that this does not take care of the problem over the long term, and very possibly not in the short term. So at least we are in agreement insofar as I mentioned.

However, I must say in equity I have always felt that Federal employees, and I am a Federal employee myself, should be included under social security the same as everybody else. I have felt very strongly that the Federal retirement funds, of which there are a myriad, as you know, should be maintained, that they should not be abolished, and have not recommended that there be a merger or that the social security fund be the recipient of a transfusion of moneys out of any of the Federal retirement funds.

But it seems to me that the Federal retirement programs can be designed, as other programs in the private sector, so they would be supplementary and go hand in glove with the social security program.

Now, I have listened to your testimony today, and I wonder if you can tell us what percent of the benefits paid out of the Federal retirement programs are funded by contributions of Federal employees.

Mr. PEIRCE. Are you asking what percent of the total funds including the Government's share is funded?

Mr. ARCHER. Yes, of the total benefit outlays, what percent is represented by contribution of the employee?

Mr. PEIRCE. I do not have the percent. I gave, I think, in my statement an example. In 1981, out of the $18 billion paid in, I gave a breakdown for that.

The majority of it is paid by the Federal Government. But that is due to the fact that the Federal Government did not pay matching funds from about 1920 for approximately 30 years off and on. And in 1969 when the act was amended, it was decided to amortize that unfunded deficit. So the actual additional funds paid by the Federal Government is due to that amortizing of the debt and the interest on the debt.

Mr. ARCHER. You are absolutely sure of that? You have documentation of that?

Mr. PEIRCE. Yes, sir.

Mr. ARCHER. The actuaries do not agree with you. We have specific detailed information that has been presented to us that totally refutes what you have just said. That the amount of money that was not paid in initially was so small because the wages were so small at that time that it does significantly impact on this and would represent only 1 to 2 percent of the total.

I do not know where your figures come from but they are disputed in detail in specific fashion by the actuaries who have examined the spending. Today, we have been given precise information that the contribution out of the Federal Treasury is equal to 4½ times what the employee contributes, and there is no way in commonsense that that can be represented by the failure to put in money in the early years when contributions were very, very small in a total dollar sense.

I find it hard, frankly, to believe that we are going to help the Federal retirement funds with each additional employee that enters the fund when it is costing the Federal Treasury 4½ times what the employees contribute. It seems to me that under those circumstances, gentlemen, every new employee that you add to the fund is a greater drain on the fund rather than a help to the fund.

Mr. PEIRCE. Well, evidently you have some actuarial studies that reflect differently from ours, and maybe we can exchange some of our information with you.

Chairman PICKLE. Would the gentleman yield?

Mr. **Archer**. I would be happy to yield.

Chairman **Pickle**. And I will not take from your time. But I think it might be a good question to follow through with you, Mr. Peirce, or any of you gentlemen. Is it true that most of the unfunded liability in the civil service system today has developed in the last 5 years?

Mr. **Sombrotto**. No, since 1969 actually.

Chairman **Pickle**. Well, since 1969. Let's say 5 years or in recent years. And isn't it true that this liability is growing now, even though the Federal Government puts in about $5 for every $1 that the Federal employee puts in?

And let me ask you further if we had given you all of the money that the Federal Government had not put in over these years, starting back up until now, you would not have more than $3, $4, $5 billion on the net $500 billion unfunded liability?

Mr. **Biller**. But this, sir, is a pay as you go system, as you well know, and exactly what we are saying is if you close this system down, then you are going to have to pay off that unfunded liability. But this way, the system is paid as you go along.

For example, right now there are some $98 billion in reserves that will last for about 5 years.

Chairman **Pickle**. Well, I am trying to get you to respond to my questions.

Mr. **Sombrotto**. The question is that since 1969, the Government has not paid its fair share; it has only paid the interest on the unfunded liability, and if they had put the money in as they were supposed to, there would not be this great unfunded liability.

Now, the Congress passed the law; we did not pass the law, and it was up to the Congress and Government to live up to the law, which they have not. And now you come back and want to put the weight of that on the backs of the people who are coming in under the system.

Listen, what this is all about, it comes down to numbers and figures and everybody can figure and everybody can produce their own numbers. But there is no real reason. It is a shell game. What is being perpetrated here is a shell game and the victims are the Federal and postal employees. There is no reason to put them under social security; their civil service retirement system is sound. It is in better shape than social security.

If this Commission's report is enacted just the way it was put forward, at the end of a specific period of time all you are going to have is 6 months to 1 year reserve. Our system now at the present time has over 5 years in reserves. Let the Government live up to its obligation because its employees certainly have lived up to theirs.

Mr. **Archer**. I understand why you do not want to be covered under social security. It is a drain on all employees in this country who have got to see that tax comes out of their paycheck every week and every month. And it is human nature for you not to want to get under it, and I do not blame you for that.

But I do think that it is this committee's responsibility to get the facts, and the facts to me just from commonsense are that an unfunded liability of a half a trillion dollars is certainly not represented by interest on the very, very small amount of money that was under a billion dollars that was not paid in during that 20-year period that you are talking about.

It is hard for me to understand how a shortfall of less than a billion dollars can accumulate interest that is equal to a half a trillion dollars. And that is what we are looking at in unfunded liability between now and the end of the century.

I have heard the commercials on television and I think they are misleading, quite frankly, that we should not bail out a bad fund with a good fund. I submit to you that 20 years from now Federal employees are going to find that there was a lot more stability in social security than there was in the Federal retirement fund.

If you also include military along with Federal civilian retirees, we are looking at a projected $1.2 trillion unfunded deficit in the fund between now and the year 2000, and that covers only 4.7 million beneficiaries. Social security covers 36 million beneficiaries and the projected unfunded liability is $1.5 trillion over 75 years, and I would say that that pales in insignificance on a relative basis with the unfunded liability in the Federal retirement system.

We are going to have to face up to this at some point in time. We cannot continue to have a system that pays retirees far more than they would make if they were still actively working at the same job. And that is clearly evidenced in the articles that have been written about Carl Albert, the retired Speaker who is making much, much more in retirement pay—and he is part of the Federal retirement system, as all Congressmen are—than Tip O'Neill who is actively working in the same job.

Now, there has got to be some reform in all of this. The American taxpayer is just not going to be able to bear this kind of a burden. And I would like to have an input from you as to your figures and to be sure that we have checked those out carefully with the actuarial figures because they just do not match up.

Mr. SOMBROTTO. If I may make a comment on what you just said. You just said that the Federal civil service retirement system will have over a trillion dollar unfunded liability.

Mr. ARCHER. No, sir. I said in coupling with the military retirement, which is all Federal retirement.

Mr. SOMBROTTO. Then what you are saying is you want to put us in social security to help out social security? You are going to put a trillion dollar unfunded liability in social security and that is going to help the system? The very notion argues against itself.

But beyond that, if you are telling me that you want to dismantle or you want to wipe out the civil service retirement system because it has, in your own words, this enormous unfunded liability, then we ought to deal with that problem; not do it under the guise of trying to help the social security system.

Mr. ARCHER. I want to quickly correct. I did not say abolish the Federal retirement system. In fact, I tried to make it clear in my statement that nobody has suggested that. I certainly do not suggest it.

Mr. SOMBROTTO. But what you are doing, then, leads you to the direct conclusion that you want to wipe away all of the benefits that are ultimately creating this unfunded liability. That is what we are talking about here, and there is no way to do it except either eliminate it or eliminate the benefits.

Mr. ARCHER. No, sir, I do not want to wipe away all of the benefits. I think the system is in need of reform so that we as a nation can afford it, and that we do not go down the path that New York City did and find these unfunded deficits and liabilities become of such magnitude in the years ahead that we may have to make some dramatic changes. That would be disastrous. And that we plan ahead and we know where we are going.

Mr. BILLER. You have also lumped together the congressional retirement aspect of it. As you know, there are a number of systems under the Federal civil service retirement system, and it is very unfair to compare that of the Congress with those of the 2.3 million workers.

Besides, the social security system, the Wall Street Journal said the other day, has an unfunded liability of some $6 trillion now. All that we are trying to say is that you are compounding the problem. You have a problem with social security; do not compound it by adding this type of problem to it.

Mr. ARCHER. Well, I tried to make it clear in my statement that the Federal retirement plans are myriad but they are all very similar. And there is very little difference in the way all of them operate if you look from one plan to the other.

I think conveniently, we do sometimes lump them together and there may be some very small distinctions between them, but they are all very comparable.

Mr. SOMBROTTO. Well, the members that I represent do get an average when they retire of less than $1,000 a month, of which at least 1 month is paid toward hospital benefits, and then the remainder is taxed after a short period of time, within about 2 years. So the average take home to a retiree is around between $600 and $700 a month.

Now, I do not want to compare that with the former Speaker's annuity where he is in a better position now than the present Speaker of the House. That is very fortunate for him, and I think that it is very unfortunate for those who do not look forward to that kind of retirement benefit.

But the average Federal employee that retires does not have a luxurious pension; he just barely makes do. And to attack that and to put it into a position in this political arena, to make Federal and postal workers the scapegoat of trying to find a solution to social security is shameful. It is absolutely shameful.

And our citizens deserve better. We deserve better as citizens of this great Nation. We deserve a better legislative system, we deserve a better review of an important issue such as social security. And we appeal to you. We appeal to you to bring the best of what America is in this process.

Mr. ARCHER. Mr. Chairman, I do think we need to get the facts on what was just mentioned. The average new award for 25 years of service is $1,300 a month. Now, if you want to average in all the people who retired many years ago who were making much, much less at the time they were actively employed, then you can come up with a much smaller average.

But I would also like to ask the gentleman, since he has these figures, if he could also tell us what the average amount that was paid in as a contribution to that plan was for each of those who are averaging out at $600 a month.

Mr. SOMBROTTO. That is very easy. First, I am talking specifically and exclusively about the people that I represent, and there are in excess of 600,000 of us into the civil service retirement system; that is, postal employees.

The average postal employee when he retires gets less than $1,000 a month, and they have to work at least 30 years and reach the age of 55.

Now, in terms of how much they contribute, their contributions are made up in their benefits after about 18 to 24 months; that is, a year and a half to two years. But I would point out that every single retirement system is based on the same formula and the same concept.

Everyone that contributes or puts money away for retirement puts in much less than they ultimately take out; that is the system. Every social security recipient puts in less money. The ones that are receiving benefits now have put in a very, very small amount of money and they are receiving greater benefits, and they are entitled to them. We support that, and there is nothing wrong with that system. It is tailored along the same lines that every other retirement system is tailored.

Mr. ARCHER. Well, sir, you say there is nothing wrong with it, and yet a minute ago you said that it was a terrible system and that it was going to go into default, and that this proposal is not going to solve the problem.

Mr. SOMBROTTO. You said that. You are saying that social security is in bad trouble. We are not arguing that.

Mr. ARCHER. I thought your panel had said that, too.

Mr. SOMBROTTO. No, no, no. What we said was that we want to solve the problem of social security, but we do not want to do it on the backs of postal and Federal workers. That is what we are talking about. We say that each system stands on its own, each system has characteristics that are different from each other and you are mixing apples and oranges and you are doing it in a political way.

You are using Federal and postal employees as scapegoats. They are good targets, and what is shameful is that you are and all of us are Federal and postal employees, and we should not be used as targets in a political arena, and we should stand on our own. Each system should be straightened out on its own merits, and it should be dealt with on its own merits. And we know that social security has some problems because you told us that, but there are other ways to fight it and there are other solutions, and it behooves you to find those solutions.

What we are telling you is that putting Federal and postal workers in there is not going to solve the problem.

Mr. ARCHER. Do you understand, though, that under all of the proposals that have been made and all of the models that have been looked at, Mr. Sombrotto, postal employees would receive more for full careers than they do under current law?

Mr. SOMBROTTO. They would receive more than what?

Mr. ARCHER. They would receive more in the way of benefits than they do under current law.

Mr. BILLER. Under what system, sir?

Mr. ARCHER. Under the proposals that are before this committee.

Mr. BILLER. There are no specific proposals. They have been talked about in general terms. We have seen nothing. We have seen no figures, we have not seen assumptions. All that you had was a general statement made the other day by the Executive Director of the Commission that has gotten a lot of press because the power is there. It is a political solution for an economic problem that we know is not going to work, and we think you ought to be more above board on this.

Mr. ARCHER. Well, postal employees, under any sort of model that can be considered that would implement the Commission's proposals, would get more in benefits. They would get more, so your argument is basically against the interest of the postal employees because the lower end of the pay scale is heavily weighted under the social security benefits, and it is not so heavily weighted under the Federal retirement system.

Mr. SOMBROTTO. Let me offer this proposition. We will make those sacrifices, Congressman

Mr. ARCHER. If you would let me finish my statement.

Mr. SOMBROTTO. I am sorry.

Mr. ARCHER. The very people you are talking about would not be in any way prejudiced by this proposal, but rather, would be helped.

Mr. SOMBROTTO. OK, if they are going to be helped, then we will put that up. That is our contribution to helping social security. We want to help social security. And if we are going to be helped by this, we do not need that help. We will settle for what we have, and whatever help we would get, we would apply toward helping those that are under social security.

Mr. ARCHER. Would the gentleman also be willing to commit to me today that you would be willing to give up the extra benefits that you get under social security today that your employees get?

Mr. SOMBROTTO. Congressman, I have paid into social security for over 30 years; 30 years I have paid into social security and for over 35 years I have paid into the Federal civil service retirement system, and if you do not think that I am entitled to the benefits from both, then there is something wrong with a Government that says it can take my money for over 30 years and under a set of rules that they made at the last minute say well, we want to change the rules.

Yes, I think I am entitled to whatever I receive because I paid for it.

Mr. ARCHER. But did you pay for the benefits, Mr. Sombrotto?

Mr. SOMBROTTO. Yes, I have.

Mr. ARCHER. When your benefits are far in excess of the contributions that you have made to both plans which you have just outlined, somebody else has got to pick up the difference, and the weight of that difference is the problem that we have today in this country.

Mr. SOMBROTTO. I do not know of one person who is covered under social security or civil service retirement ultimately that does not get more benefits, more in benefits more than they put in, if they live that long.

Now, if this Government is trying to figure out a way to make everybody die before they get to 65, that is terrific, because then the social security system will be very sound. But I think that is a kind of a Draconian solution to the problem.

Mr. ARCHER. Well, Mr. Sombrotto, and this is just commonsense, if every retirement system in this country paid out the total contributions that were paid in during the work life in less than 2 years, this country would be completely bankrupt in such a short period of time that there would be no retrieval.

And that is the situation as you pointed out that exists relative to social security and the Federal retirement system. That is the reason we have got the problem today. That is what we are trying to do something about. And this Congress has got an obligation to everybody in this country, and we do have the obligation to, on a deliberative basis, evaluate these programs and try to make some sense equitably for everybody, including the people you represent.

Mr. BILLER. Well, you are giving us more than our share and I would like to point out, as you well know, in most private employer pension funds, there are no contributions required of the workers. So when you keep talking about the benefits that are obtained, I have to go along with——

Mr. ARCHER. Mr. Biller, whatever the employer pays is a cost to the employee because if the employee did not have to pay it he could pay that much more in wages to the employee.

Mr. BILLER. Well, the Federal Government, as you know, has never been generous in wages. You know that very well, and that continues to be a problem. And you are just singling out postal and Federal workers, and we do not choose to be scapegoats. We want to see this Congress make the deliberative, go through the deliberative process instead of just telling us listen, fellows, it is a closed door; we have got a bipartisan arrangement, that is it. I think we have got to explode this myth and show you and the American people that we think you are wrong.

Chairman PICKLE. The Chair will observe that we have gone over by two or three times the time we would normally on a panel, but we recognize this is a very serious problem for you and your organizations and we want to be certain that you do have your testimony on the record and you have been able to answer, or at least reply to, some of these questions.

Now the Chair is going to proceed with another panel, but he wants to make this observation: that the recommendations of the Commission and any made by this committee have no intent of doing damage to the civil service retirement system. We have no doubt that if you were covered and brought under the system in a coordinated method that you should have a plan that protects your rights.

We think there is a serious question as to the reliability of statements that the lack of Federal contributions caused your unfunded liability. We do not think that is a fact. We do think, though, that you have a right, that we the systems have a right to have equity between the Federal workers and the social security system. That is all we are really trying to do.

Now, I do not think there is any prejudice in the recommendation that the Commission has made when people like Mr. Robert

Ball testified that this should be done, that step should be taken and that in the long run, you come out better as Federal workers and social security people.

I have to say that we have to take that kind of statement with some sense of reliability. But this is what this committee has got to make a decision on, which way we go. And if we do not go this route, if we had to take out $10 billion or whatever amount there is of a shortage, then that means that either you have got to raise money or borrow money from the Federal Treasury or cut benefits to make up for this in the package.

It is a problem for us, and I think you would have to recognize it is a problem for all of us, and we are not given all of the wisdom of knowing what course to take. But we are trying to examine every possibility, and I assure you that your statements are going to be read, and I would hope that you gentlemen could stay, because we have got another panel that follows and I would like for you to hear their testimony.

We will be glad to visit with you later on any other matter.

Mr. MATSUI. Mr. Chairman, may I ask one question?

Chairman PICKLE. Well, the Chair recognizes you, but the Chair must proceed.

Mr. MATSUI. Yes, thank you, Mr. Chairman. May I just ask these gentlemen one question? I talked about the politics of the matter in my first round of questions. Now I would like to ask one substantive question and one that reflects my concern.

As you know, before your retirement benefits vest under the civil service retirement system an employee must work 5 years, and if a person is under that system for less than 5 years and then goes to work in the private system, he or she has lost those 5 years of work in terms of accruing either pension or social security benefits.

How do you gentlemen respond to the portability question and how would you solve the problem? It is my understanding that over 50 percent of the individuals who enter Federal service never receive any Federal retirement benefits whatsoever.

Mr. BILLER. Portability may be a problem, and obviously, it is one that you are going to have to deal with it. But what I am saying is you do not take one injustice and compound it with something else. That is the point I am making. By just buckshotting 2.3 million workers and a million and a half annuitants, and that is something that the committee is going to have to deal with; yes.

Mr. PEIRCE. I think there are problems with the civil service retirement system, as all others, but I think they can be solved within, the same as social security can be solved within. And I want to say one thing.

I met with Robert Beck, who is the CEO at Prudential Insurance Co. and who was on the Commission, and I had quite a long talk with him, a debate, as a matter of fact. The last question that I asked him was why do you want to put Federal employees under social security, and he said for one reason: it adds credibility to the system. I said, is there any other reason, and he said no.

Now, I do not believe that it adds any credibility to the system, and I do not believe the lay public gives a darn whether the Federal employees are under social security or not. As a matter of fact, we are being used as a scapegoat to supply funds in the shortfall here.

Chairman PICKLE. Mr. Peirce, I am not going to continue that. But we are not just trying to make you a scapegoat; we are trying to find equity between people who are covered by social security and an equity for people in the civil service system.

Now, you can make your statement, but I must say there is a difference of opinion with those who are trying to find an answer to the problem we have.

The Chair thanks you gentlemen, and appreciates your testimony, and we hope you stay because we want you to hear this other panel, if you would like, and then perhaps we can talk about it further.

Our next panel consists of Mr. Carroll J. Savage who is counsel of the Employers Council on Flexible Compensation, and the next gentleman will be Mr. Hastings Keith, a former colleague and member of the Commerce Committee for years here in the Congress, and you had Mr. John Macy, but whom do you have?

Mr. KEITH. Charles Morris, retired Treasury employee.

Chairman PICKLE. We are glad to have you with Mr. Keith. And then we have Mr. Sylvester J. Schieber, who is a representative of the Employee Benefit Research Institute. We would recognize first Mr. Savage for your statement and then proceed down the line.

STATEMENT OF CARROLL J. SAVAGE, COUNSEL, EMPLOYERS COUNCIL ON FLEXIBLE COMPENSATION

Mr. SAVAGE. Mr. Chairman, I am here on behalf of the Employers Council on Flexible Compensation. A list of the ECFC membership is included at the end of my statement.

Mr. SHANNON. Mr. Savage, could you move a little closer to the microphone?

Mr. SAVAGE. Our purpose today is to comment on the National Commission's recommendation No. 17, which would include contributions by employers to private profit-sharing retirement plans in the wage base for purposes of the tax and benefit credit.

Proposed legislation along the same lines is in Mr. Pickle's bill, H.R. 660 and in S. 1. Under a cash or deferred arrangement, which is often called a section 401(k) plan, the employer allows the employee to elect whether the profit-sharing contribution will be set aside in a tax qualified retirement fund or paid to the employee in cash. Such plans have been approved by the Internal Revenue Service for 25 years, conditional on rules insuring that the plans are non-discriminatory.

Contributions under such a plan are treated in the same way for tax purposes, including FICA taxes, as company contributions to any other retirement program. Unlike employee voluntary contributions which may be withdrawn at any time, contributions to these plans are true retirement benefits which may not be withdrawn during employment prior to age 59½, except in case of hardship.

Accordingly, employees who participate presently are not subject to tax on these benefits until received. Of course, if an employee does not elect to participate, any cash which he receives is wages for all purposes, currently taxable in the year of receipt.

Plans subject to section 401(k) vary widely in design and cannot be simplistically viewed as merely a choice between cash and an equal amount of benefits. There are many common instances not covered by section 401(k) in which employees have the opportunity to receive cash in lieu of some other form of remuneration. Section 401(k) plans are, therefore, only one isolated instance of employee choice.

The essence of flexible compensation is that tax consequences for employees should be based upon the bottom line of the compensation package, which reflects the mix of salary and benefits which the employee receives. The creation of isolated exceptions to this approach can only result in inequities.

The proposal would also lead to administrative complexities in that it would create a separate definition of wages which must be integrated into payroll systems across the country.

Section 401(k) is an extremely desirable vehicle for encouraging capital accumulation and increasing retirement security on a broad, nondiscriminatory basis. The vast majority of our membership believes that recommendation No. 17 is unwise in singling out section 401(k) plans for special treatment. Although some of the membership, including Pfizer, Inc. which has actively sought this change, favored the proposal, all are in agreement that section 401(k) plans are desirable and that the tax law should be designed so as not to discourage high rates of participation by rank and file employees.

It is generally agreed that most employees probably lose nothing in the way of retirement security by reason of the exclusion of qualified plan contributions from the wage base if it is assumed that the current tax savings are used to provide additional benefits.

In conclusion, although it is arguable that the FICA base should somehow take into account all kinds of fringe benefits, ECFC believes that there presently is insufficient evidence to support an isolated change directed only to section 401(k), and that there may be negative consequences for singling out one aspect of the issue for special treatment.

In view of the fact that no significant current revenue is attached to the recommendation and it is not part of the Commission's consensus package, we believe it should be postponed for further study.

That concludes my statement.

[The prepared statement follows:]

STATEMENT OF CARROLL J. SAVAGE, ON BEHALF OF THE EMPLOYERS COUNCIL ON FLEXIBLE COMPENSATION (ECFC)

TOPICAL OUTLINE

The proposal to include contributions under cash or deferred arrangements (§ 401(k) plans) in the OASDI-HI wage base should be deferred for further study because:

A. the proposal is inequitable in that it singles out a certain type of retirement plan for treatment different from other economically similar arrangements;

B. the proposal will create administrative complexities;

C. the proposal may not be in the best interest of affected employees and may retard participation in § 401(k) plans, thus reducing capital accumulation and retirement savings; and

D. the present revenue impact of the proposal for the Social Security System is believed to be small.

STATEMENT

The ECFC is a national nonprofit organization committed to the promotion and improvement of flexible compensation programs. A list of the ECFC membership is included at the end of this statement.

I. INTRODUCTION

ECFC congratulates the National Commission on Social Security Reform on developing a broad consensus on areas of change which can help solve the financial plight of the Social Security System. Our purpose in appearing at these hearings is limited to commenting on one technical recommendation (Recommendation No. (17)), which would include contributions by employers to certain private profit sharing retirement plans in the wage base for purposes of the OASDI-HI tax and for benefit credit purposes. Recommendation No. (17) appears in the Commission's Report on pp. 2-18 and 2-19 and is not part of the Commission's "consensus" package to provide additional financial resources. Proposed legislation along the same lines is embodied in section 304 of H.R. 660, the "Social Security Miscellaneous and Technical Improvements Act of 1983", and in section 305 of S.1, the Social Security Amendments of 1983.

II. GENERAL BACKGROUND—FLEXIBLE COMPENSATION

"Flexible compensation" means that employees are offered a variety of benefits and are permitted to select the benefits that they want. Traditional, standardized compensation programs result in wasteful expenditures for benefit coverage that some employees do not need or want while denying employees access to many valuable benefits because such benefits are not needed or desired by most other employees.

Flexible compensation plans are the most cost effective way to provide a sound benefit program to employees. Such plans vastly improve the availability of coverage for a given dollar of expenditure. Allowing each employee to elect how the employer's expenditure is to be allocated among a "menu of benefits" guarantees that each benefit dollar achieves the maximum amount of return in terms of employee satisfaction and morale. Accordingly, such programs can be expected to increase productivity. The element of employee choice is, for example, believed to be a significant factor in health care cost containment.

In 1978 and 1980 legislation, provisions of the Internal Revenue Code now found in § 125 and § 401(k) took major steps toward facilitating the expansion of flexible compensation programs. These sections in essence provide that participation in nondiscriminatory programs which constitute cash or deferred plans or so-called "cafeteria plans" and which provide an individual choice to employees among benefits such as retirement savings, health care, life insurance, etc., or additional cash compensation, will not result in adverse tax consequences for an emloyee solely by reason of the availability of such choice. In other words, an employee who elects additional cash compensation or taxable benefits will be taxed accordingly, but an employee who elects health or retirement benefits, for example, which are excludable from income or wages under specific Code provisions, will not be taxable on amounts contributed by his employer to the program merely because he could instead have elected cash or other taxable benefits. In order for employees covered by a flexible plan to be protected by these rules, the plan must not discriminate in favor of highly compensated employees.

III. PUTTING SECTION 402(k) PLANS IN CONTEXT

Under a traditional "cash or deferred arrangement" (often called a "§ 401(k) plan"), the employer allows an employee to elect each year whether the profit sharing bouns (if any) which may be declared at year-end will be set aside in a tax-qualified retirement fund or paid to the employee in cash. Such plans have been approved by the Internal Revenue Service for over 25 years, subject to compliance with rules insuring that actual participation elections do not unduly favor highly compensated employees. Contributions to provide retirement benefits under a qualified cash or deferred arrangement are treated in the same way for tax purposes,

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including OASDI-HI, as company contributions to any other retirement program. Unlike employee voluntary contributions, which may be withdrawn at any time, contributions to these plans provide true retirement benefits which may not be withdrawn during employment prior to age 59½, except in cases of hardship. Accordingly, employees are not subject to tax on these benefits until received at or after retirement, at which time benefit payments are subject to income tax and are exempt from OASDI-HI in the same way as other qualified retirement programs. Of course, if an employee does not elect to participate, any cash bonus which he receives is "wages" for all purposes, taxable currently in the year of receipt.

Because cash compensation is economically the same whether it is received as a bonus or spread over a year as "regular" pay, Internal Revenue Code § 401(k) does not draw any legal distinction between plans such as those described above, in which the employee may elect retirement benefits in lieu of a bonus, and plans which permit the employee to elect retirement benefits in lieu of regular pay or in lieu of a pay increase. To differentiate between bonus and salary reduction plans would create meaningless distinctions easily circumvented by restructuring pay and benefit mixes.

Plans subject to Code § 401(k) vary widely in design. For example, the amount which an employee can receive in cash is not necessarily equal to the amount which will be contributed if the cash option is foregone. In some plans the company contributed for employees who elect to participate may be substantially greater (e.g., 400 percent) than the cash option, may vary widely with profits, and may constitute a different percentage of compensation for different employees (i.e., a lower paid employee who elects to participate may receive a relatively higher contribution in relation to the cash option than would a higher paid employee). In other words, § 401(k) plans cannot be simplistically viewed as merely a choice between cash or an equal amount of benefits.

In some bonus-type § 401(k) plans the election is made only once annually, at a time well in advance of declaration of the bonus, and often before it is known whether there are profits or whether the amount of profits will support a contribution for the year. In other plans more frequent elections are available.

It is also important to realize that many other types of fringe benefits, including qualified pension and profit sharing programs not described in § 401(k), are optional or contain optional features. Frequently company contributions are made for an employee only if he chooses to participate in the program. An employee may elect to participate or not for various personal or economic reasons, whether or not any cost is imposed or any measurable alternative offered. For example, before 1982 employees frequently elected to forego company contributions to retirement plans in order to obtain the tax benefits of IRA deductions.

There are also many common instances not covered by § 401(k) in which employees have the opportunity to receive cash in lieu of some other form of remuneration, present or future. For example, an option to defer a bonus, raise, or regular salary on an unfunded basis, to exercise an option to purchase restricted stock, to exercise a stock appreciation right in lieu of a related stock option, to take additional vacation in exchange for a salary reduction, etc. And many qualified plans, unlike § 401(k) plans, do not require that distributions generally be postponed until age 59½, and may permit in-service withdrawals at any time for any reason; an employee with an account balance may obtain additional cash, in lieu of retirement savings, merely by exercising a continuing right of withdrawal.

Section § 401(k) plans are, therefore, only one isolated instance of employee choice. The essence of flexible compensation is that tax consequences for employees should be based on the bottom line of the compensation package which reflects the mix of salary and benefits which the employee receives. Creation of isolated exceptions to this approach can only result in confusion and inequities.

IV. PROBLEMS RAISED BY RECOMMENDATION NO. (17)

A. *Inequities*

The proposal raises serious questions of equity as between:

(a) employees in § 401(k) plans and employees who are not in such plans but have other types of control over their compensation mix;

(b) employees in § 401(k) plans and employees in other qualified plans, many of which freely permit withdrawals.

Proponents of the change point out that voluntary savings through IRAs or qualified voluntary employee contributions, although deductible for income tax purposes, are included in the Social Security wage base. However, this analogy overlooks the significant distinction that IRA and similar savings vehicles are individual arrangements; § 401(k) plans, like all other employee maintained qualified retirements plans, must be broad based programs with nondiscriminatory participation and benefits.

B. Administrative complexities

The proposal also will lead to administrative complexities:

(a) it would create a second definition of wages which must be integrated into the payroll system (a few employers already keep a separate calculation which includes the § 401(k) elective contribution, for purposes of calculating the level of pensions and other fringe benefits);

(b) it departs from the usual conformity in the definitions of wages between OASDI-HI taxes and Federal Unemployment Tax Act (FUTA); thus, to the extent that FICA/FUTA and income tax withholding are already based on different concepts, a third category would be created;

(c) where the § 401(k) contribution is made only once annually, after year-end, the entire contribution, for high and low paid alike, would be subject to OSADI–HI tax, which would be too large to deduct from the week's cash pay and would have to be deducted from the employer's contribution to the plan, thus directly reducing the amount being set aside for retirement.

C. Other considerations

Even apart from the inequities and administrative problems which are created if special exceptions are made in the otherwise bright line between pay and benefits, it is by no means clear that policy or revenue considerations favor changing the rule for § 401(k) plan contributions. Most experts view § 401(k) as an extremely desirable vehicle for encouraging capital accumulation and simultaneously increasing retirement security on a broad nondiscriminatory basis. These objectives remain high priorities for Congress and this Administration. While another important goal is to insure the financial soundness of the Social Security System, it is not clear that this latter goal will be enhanced significantly by the proposals and it is very possible that the objectives of capital accumulation and encouragement of retirement savings will be undermined.

The vast majority of the membership of ECFC, consisting of experienced benefits experts and consultants as well as most of the major companies with experience administering § 401(k) plans, believe that the proposal is unwise in singling out § 401(k) plans for special treatment, or that there is insufficient data to support making a change at this time. These views are not unanimous; some of the membership, including most notably Pfizer Inc. (which has actively sought this change), favor applying the OASDI–HI tax to § 401(k) contributions.

Those who favor the proposal and those who oppose it are in agreement that § 401(k) plans (and flexible compensation in general) are desirable phenomena and that the tax laws should be designed so as not to discourage high rates of participation by rank-and-file employees. The proposal would make § 401(k) relatively more burdensome from a cash-flow standpoint for impacted employees, primarily those employees whose compensation is below the wage base at the time of the contribution (in bonus-type plans where contributions are made early in each calendar based on the previous year's profits, most employees would be affected, but for higher paid employees this affect would be offset by an increase in cash flow later in the year). Otherwise, employees whose total cash compensation equals or exceeds the wage base would not pay increased taxes under the proposal; however, those in the highest paid one-third would be indirectly affected because the level of contributions on their behalf is limited by the nondiscrimination rules of § 401)k) to an amount which is determined in relation to average contributions elected by the lower paid two-thirds.

Under present law, it is generally agreed that most employees probably lose nothing in the way of retirement security by reason of the exclusion of qualified plan contributions from the wage base if it is assumed that the current tax savings are used to provide additional benefits. This holds true for § 401(k) plans. If an average employee elects to have his employer contribute to a § 401(k) plan as additional amount equal to the OASDI–HI tax which he would have had to pay had he not participated, numerous studies have concluded that such amount invested at interest during the period until retirement will usually produce a larger retirement annuity than the reduction in the Social Security benefit which would result from such additional contribution having been received in cash and included in the wage base. This is particularly true where, as is commonly the case, the employer maintains an integrated pension plan which provides a benefit that takes into account the level of Social Security.

Apart from the relative value of benefits, an employee might prefer benefits under a § 401(n) plan to additional social security benefits because of the availability of a lump sum death benefit and more flexible methods of receiving benefits during retirement.

Disagreement centers around the issue of whether, notwithstanding these considerations, the proposal would have the effect of increasing or decreasing participation by rank-and-file employees. Support for the amendment appears to be based primarily on concern that employees may not understand the actual economics. Most ECFC members, however, believe that employees do understand the economic realities and are concerned the participation by rank-and-file, and hence future retirement security from social security and private plans combined, may be reduced if the law is changed.

V. CONCLUSION

In conclusion, although there is a possibility that it can be demonstrated that the OASDI-HI base should take into account some or all fringe benefits, ECFC believes that there presently is insufficient evidence to support that conclusion and that there may be serious negative consequences to singling out one aspect of the issue for special treatment. In view of the fact that no significant current revenue is attached to Recommendation No. (17) (see National Commission's Report, p. 2-18) the proposal should be deferred for futher study. This study should not focus on isolated types of benefits, such as plans coming within Code § 401(k), but should look at the issue of whether a broadly different approach should be taken to the relationship between fringe benefits and the OASDI-HI base. Only in this way can economic distortions and inequities be avoided and a sound judgment made concerning the proper treatment of contributions to qualified retirement plans.

EMPLOYERS COUNCIL ON FLEXIBLE COMPENSATION

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Yaffe & Offutt Associates, Inc.
Arthur Young & Co.

Mr. SHANNON. Thank you very much, Mr. Savage. Mr. Keith.

STATEMENT OF HASTINGS KEITH, NATIONAL COMMITTEE ON PUBLIC EMPLOYEE PENSION SYSTEMS, ACCOMPANIED BY CHARLES MORRIS, FORMER EMPLOYEE, TREASURY DEPARTMENT

Mr. KEITH. Mr. Chairman, Mr. Macy suffered a heart attack a week ago and unfortunately, is unable to be with us. Standing in his stead today is a career employee of 42 years in the Treasury Department. His name is Charles Morris, he retired at a salary of $7,500 in 1965 with a pension of $395 a month. Today, that pension is about $15,000 a year, and I think he has a very concise statement.

Mr. MORRIS. I am grateful to be able to testify before your distinguished committee. I am a retiree of the U.S. Treasury Department where I held a succession of obscure jobs, receiving on my retirement, the usual extravagant accommodations, and the Albert Gallatin Award for long and faithful service.

I served 42 years. I just want to say what everyone must realize, that the huge budget deficits which impend for the next few years are threatening the stability of our Federal Treasury unless they are trending downward from now on.

In order for this downward trend to become a fact, all Americans above the poverty level must participate in the necessary sacrifices, including the cancellation of the July 1983 tax cut, if this can be called a sacrifice. Federal pensioners, both civilian and military, must shoulder their part of the burden. The particulars of this burden must be carefully calculated and articulated with justice and fairness to all concerned by actuaries, stenographers, statisticians, areas beyond my competence.

But I have no hesitancy in saying that in my view, unselfishness, commonsense and yes, some old-fashioned patriotism, are urgently needed at this juncture. And it is up to all Americans who have benefited by generous allotments from our economy to be willing to make some sacrifice in order to restore our fiscal equilibrium.

I fervently hope that my fellow Federal employees, both civilian and military, will see fit to make some accommodation along these lines for the benefit of the budget, the economy and the unemployed, and not offer shortsighted obstruction that fails to take into account the long-range picture and the general good. Thank you.

Mr. KEITH. Mr. Chairman, I have a prepared statement which is in your hands, but in view of what has gone by and the time limits, I would invite your attention to the page that shows the Federal pension and facts as furnished by the Erlenborn subcommittee, or I should say John Erlenborn's office.

It shows the unfunded liabilities of most large Federal pension plans. It shows that there are four or five there that are integrated with social security; they are the Post Exchange employees, the Federal Reserve Bank and most particularly, the TVA. The TVA has a plan that is about the same in benefits as are the other ones in the private sector, but they are all Federal employees, and it is integrated.

The military, on the other hand, is the beneficiary of social security, but the social security system is totally additive. That is all the difference in the world. And when you take up the question as to whether or not you furnish Federal employees with social security, don't make the mistake that was made in the case of the military of making it totally additive. Do instead what was done with the TVA and integrate it.

The unfunded liabilities on a per capita basis for the military are now about $140,000; for the TVA, the unfunded liabilities are $17,500 per capita. If you take a look at the Federal Reserve Bank, an integrated plan, they are $13,000 per capita, and yet the benefits are just about as generous as those provided to the civil servant.

If I may for a moment just address some of the remarks that were made earlier about the average pensions, the reason that the postal employee's pension is only $1,000 is that they, for the most part, have social security on the outside, as was pointed out by the witness here today. He is getting benefits as though he were only marginally employable because he was apparently moonlighting. The average social security recipient in the Federal Government gets socially weighted benefits because he is considered by the formula to be marginally employable, and accordingly, he gets perhaps 90 percent replacement wage of that marginal income.

The people in New Bedford, who do not have the advantages of moonlighting but who rely on social security for the foundation of their pension average somewhere in the vicinity of $400 or $500. So the people who are paying for this postal service are hard pressed with their modest pensions because they do not get any pensions from the private sector to speak of; they must rely largely on their social security and their taxes must support the civil service pension which is, as you know and has been pointed out earlier, close to $500 billion in total.

So we have on the one hand an integrated civil service, I mean, a TVA plan, that is very modest in the total cost to the Government and to the employee, and on the other hand we have a military which is totally active. There is one suggestion that has been made by our committee, and that is that we cap the COLA's. My entire pension totaling approximately $76,000 is totally indexed.

If you cap that COLA in an amount that would be the maximum that you could get under social security, my pension would only be indexed as $66,000. If you adopted that philosophy and this is also shown in my testimony limiting the amount of indexation to the amount of social security, you would save almost half of the cost of the plan and it has been pointed out by the actuary, Ed Hustead, that it would be in the vicinity of $70 billion if you cut out that indexation above $800 for the civil servant and for the military.

Thank you very much.

Mr. SHANNON. Thank you, Mr. Keith.

[The prepared statement and attachments follow:]

STATEMENT OF JOHN W. MACY, JR., AND HASTINGS KEITH

Mr. Chairman, my name is Hasting Keith. I am a former member of Congress and Co-Chairman of the National Committee on Public Employee Pension Systems

(PEPS). John Macy, former Chairman of the Civil Service Commission and Co-Chairman of PEPS was to be with me today. I regret to relate, he suffered a severe heart attack a week ago and cannot be with us. You will recall that he testified before the Subcommittee on Social Security a year ago. The subject at that time was the same as it is today—Social Security. I would recall to the full Committee's attention that he strongly endorses the concept of universal coverage.

In John's absence, I am accompanied by two other members of PEPS, Suzanne Woolsey and Charles Morris. Suzanne Woolsey served as Associate Director for Human Resources, Veterans and Labor at OMB for the first three years of the Carter Administration; Policy Analyst at HEW from 1970; Psychologist at the VA Hospital from 1966 to 1968; and currently Management Consulting Partner at the public accounting firm Coopers & Lybrand. Charles Morris is a former U.S. Treasury Department employee. The perspectives presented in this statement represent our independent views and we are in no way speaking on behalf of the entire committee (PEPS).

PEPS is a non-profit, nonpartisan, educational organization established to address the political, social and economic impact of public employee pension systems. (I have attached a copy of our Statement of Purpose and a list of our members.) Perhaps only a few of our areas of concern are within the primary jurisdiction of the Committee on Ways and Means. The National Commission on Social Security Reform's recommendation of Social Security coverage of all newly hired civilian employees of the Federal Government means, however, that all of the issues in PEPS Statement of Purpose are ones Congress as a whole will face.

On October 25, 1977, the American public was asked by the AFSCME/AFL-CIO, in an advertisement in the Washington Post, "Is Your Congressman Serious About The Social Security Crisis?" This advertisement (copy attached) warned that "The wrong vote in Congress tomorrow could deny you and millions of other Americans Social Security protection." AFSCME further asked, "What price does the public pay if Congress does not extend Social Security coverage to all Americans?" and stated:

90 million taxpayers will pay more taxes. A bigger chunk will be taken out of your paycheck.

3.6 million state and local workers and all federal employees will not have the protection of Social Security.

State and local governments with seriously unfunded pension plans will not be able to provide decent benefits to their employees without Social Security.

Rip-offs of the Social Security system will continue by those who draw benefits without having paid their fare share.

The solvency of many small businesses could be threatened by accelerated tax pressure to fund the Social Security system.

These, said AFSCME, are just some of the problems that will face Americans unless everyone gets Social Security protection—unless all federal, state and local employees are brought into the system. AFSCME concluded its advertisement plea with the statement that "The adoption of this bill, without amendments, will begin to resolve the Social Security crisis."

AFSCME was so right!

It is regrettable that I have to come here today and endorse the Commission's Report. It doesn't include state and local employees. It doesn't include current federal employees and the Commission's estimate of the savings to be gained from eliminating windfall benefits at something less than $500 million appears to be understated. The Joint Economic Committee, in its report of October, 1980, said that, "This gap between Social Security benefits and contributions provides an unintended subsidy to government employees—a subsidy which amounted to about $1.9 billion in 1979 and which came out of the Social Security fund."

The Commission's report is just the best deal we can get.

We will be facing a re-run of the letter writing, telephoning, arm-twisting campaign that swamped the halls and offices of Congress in 1977 when, under the leadership of Joe Fisher, Herb Harris and Newton Steers, a coalition of police officers, teachers, principals, school boards, misguided mayors and governors, federal employees and their unions converged on the Capitol.

Bruce Shobel, actuary of the Commission's staff, wrote a memorandum to the effect that had the Fisher Amendment not passed, there would have been sufficient revenues so that the reserves of the Social Security system would now have a favorable balance and there would not be a need for the Commission whose conciliatory and compromising recommendations are now before us.

What we must now do is make certain that the Commission's recommendations relating to the coverage of new federal employees are not only accepted, but that the plan which is adopted for them is not simply an "added-benefit" such as was provided to the uniformed services when they were given Social Security benefits on top of their already uniquely generous federal pension.

(Some high-ranking Social Security officials, and possibly members of Congress are unaware that when the military was provided Social Security coverage, an appropriately integrated system was never devised).

This failure to properly integrate the two systems has had a devastating effect on both the defense budget and the national debt.

Despite there having been a series of Commissions that have studied this problem—and I have served on one—these Commissions uniformly had staff and Commissioners who worked hand in glove with policy makers in the pentagon and for one reason or another the status quo has prevailed.

We musn't let this situation develop in the case of the Civil Service.

Let's look at a more positive scenario for bringing civil servants under Social Security.

The TVA chose to have a plan that was integrated with Social Security. When TVA was reviewing their decision to integrate their retirement plan with Social Security, their consultants advised them that if they transferred to the Civil Service Retirement System, they could save a lot of money for TVA and its employees. The consultants said, however, that "This cost savings may be temporary, and it is possible that the change could eventually cost the TVA more than it is now paying for its current program . . ."

The consultant's report went on to explan that:

"Candidly, this is because the required employee and employer contribution for the FCSRS is far less than the amount needed to pay for the plan, and the System is being subsidized by the nation through general revenues. If TVA switched over, it would be eliminating its own program, which it is paying for in full, and it would be substituting a program that is currently subsidized by the general taxpayers throughout the nation. The danger that exists is that it is questionable how long the entire nation will continue to subsidize the FCSRS."

TVA could serve as a model for what should be done with the Civil Service Retirement system. To illustrate this point, I have attached a report published a year ago by one of your colleagues, John Erlenborn, titled "Federal Pension Facts." Note the extraordinary difference in costs of the Civil Service and TVA plans (note also that there are other federal agencies that have integrated plans, and that their unfunded liabilities on a per capita basis are about one-fifteenth of those in the nonintegrated plans). It is impossible for the participants in integrated plans to double-dip, intentionally or inadvertently, or to enjoy socially-weighted benefits of Social Security. In short, these people are contributing to and benefitting from the social insurance effects of the Social Security system.

The effect also has international implications. These unfunded liabilities, as they become line items in the budget, will eventually so burden the economy as to dull our competitive edge in world markets. We can't afford the inefficiencies of the independent status of the Social Security and Civil Service retirement systems. The pension problem is a world problem. Most countries in the world are grappling with major pension problems. The advanced industrial countries are rapidly being displaced in the world market by competition from the newly industrialized countries whose pension provisions are not as elaborate nor contribute as substantially to as burdensome a tax environment.

Mr. Joseph Swidler who served as Chairman of the Board of the TVA Retirement System for twelve years (1945–1957), and a member of our committee (PEPS), in a letter to Mr. Biller, President of the American Postal Workers Union, relates that he has been receiving full Social Security benefits and that no payments from the Federal retirement system in which he participates have been reduced by virtue of the payments from Social Security, nor vice versa. Mr. Swidler states that, "On the contrary, both payments have grown through the years, at a rate faster than inflation, and my Civil Service pension alone now substantially exceeds my highest earnings in federal employment. It seems to me that this arrangement does not make sense."

In other words, Mr. Swidler is saying that if these plans were properly "integrated" instead of being purely "additive", the cost of living adjustments would not be duplicative.

We have asked Edwin Hustead, former Chief Actuary of the Civil Service Retirement System, to give us a rough estimate as to how much money would be saved if the cost of living adjustment were limited to that portion of the Federal pension (Civil Service, Military, or Social Security) which is the maximum amount necessary to preserve the "floor of protection" which those who designed the Social Security system had in mind in their original concept.

In short, we're suggesting that the maximum which should be indexed at federal expense should be the maximum paid to a retired Social Security recipient—this is estimated to be about $800/month.

This is not to suggest touching people who need social security as a safety net. Rather, it is to suggest a cap on cost of living adjustments on amounts that exceed the maximum Social Security benefit. I belive it is possible for the Congress to legislate such a proposal, and I think it is within the jurisdiction of the Committee on Ways and Means.

According to Edwin Hustead, if these suggestions were translated into legislation, at a 5% average rate of inflation, $4.3 billion could be saved in the next 3 years and in a 7 year period (i.e. by 1990) $31.7 billion would be saved. Should we find ourselves again confronted with a 10 percent average rate of inflation, the amount saved would be $8.9 billion in the first 3 years, and over a 7 year period the savings would amount to $72.6 billion:

MILITARY RETIREMENT SYSTEM—OUTLAYS

[In billions]

Fiscal year	With no inflation	5 percent inflation		Savings	10 percent inflation		Savings
		Full increase	Limited increase		Full increase	Limited increase	
1984	$17.2	17.4	$17.3	0.1	17.7	$17.4	0.1
1985	17.6	18.6	18.0	0.6	19.4	18.3	1.1
1986	18.0	19.9	18.7	1.2	22.0	19.5	2.5
Subtotal	52.8	55.9	54.0	1.9	59.1	55.2	3.9
1987	18.3	21.3	19.5	1.8	24.6	20.7	3.9
1988	18.6	22.7	20.2	2.5	27.5	21.9	5.6
1989	18.9	24.2	20.9	3.3	30.8	23.2	7.6
1990	19.2	25.8	21.7	4.1	34.4	24.5	9.9
Subtotal	75.0	94.0	82.3	11.7	117.3	90.3	27.0
Total	127.8	149.9	136.3	13.6	176.4	145.5	30.9
CIVIL SERVICE SYSTEM—OUTLAYS							
1984	23.6	23.9	23.7	0.2	24.2	23.8	0.4
1985	24.3	25.6	24.9	0.7	26.8	25.4	1.4
1986	25.1	27.8	26.3	1.5	30.7	27.5	3.2
Subtotal	72.0	77.3	74.9	2.4	81.7	76.7	5.0
1987	25.8	30.0	27.6	2.4	34.7	29.6	5.1
1988	26.3	32.1	28.8	3.3	38.9	31.5	7.4
1989	26.8	34.4	30.0	4.4	43.7	33.6	10.1
1990	27.3	36.9	31.3	5.6	49.9	35.8	14.1
Subtotal	106.2	133.4	117.7	15.7	167.2	130.5	36.7
Total	178.2	210.7	192.6	18.1	248.9	207.2	41.7

Note: In making these computations, it was assumed that the average military and/or civil servant was eligible for and/or receiving social security benefits of $300/month.

Mr. Chairman, the foregoing remarks have been addressed to the specific recommendations of the Commission. There are a few additional concerns I would like to express:

(1) Ideally, all federal employees should be required to participate in, and accordingly benefit from, the Social Security system. The procedures for accomplishing this objective are within the capability of the Social Security Administration as outlined in my prior remarks about TVA. This would result in additional net revenues of about $42.5 billion.

(2) If the Civil Service Retirement System is properly integrated with Social Security, the normal retirement age would be age 65 as the Administration has recommended. This would result in substantial budgetary savings. The Joint Economic

Committee report of October, 1980 projected that for every year retirement is postponed, the Civil Service Retirement System saves 3.7%. By shifting the average civil service retirement age of 58 to age 65, savings in the vicinity of $2.5 billion could be realized in the year 1984. This, then, could be a rather substantial incidental benefit of properly integrating the Civil Service Retirement system with the Social Security System. This may also be one of the major reasons why the federal employees object so strenuously to social Security coverage. It's quite obvious to me and other taxpayers that the longevity of civil servants parallels that of people who work in the private sector. How can Congress ask the rest of the nation to work longer and continue to exempt the civil servant from the normal work pattern of the nation he serves?

(3) Another advantage that should flow from properly integrating the federal retirement plans with Social Security is that under the Social Security system, the definition of disability is more precise and appropriate. Presently, about 20 percent of all civil service retirees are retired on disability.

In closing Mr. Chairman, I believe that there is much more public support for the Social Security system than was evidenced in the 1977 debate. I believe that, as the recent poll[1] has revealed, the vast majority of Americans support Social Security on a truly universal basis. As Lincoln said, if the American people know the facts, the country can be saved. These facts are important.

The attached letters from several of our Committee members illustrate and confirm this logic.

ATTACHMENTS—IN ORDER OF PRESENTATION

1. Statement of Purpose—PEPS.
2. Membership List—PEPS.
3. AFSCME/AFL-CIO 1977 Advertisement.
4. John Erlenborn—Federal Pension Facts.
5. Statement of William G. Colman, Member, PEPS.
6. Statement of Charles L. Morris, Member, PEPS.
7. Correspondence of John J. Flynt, Jr. to Hastings Keith and John Macy.

STATEMENT OF PURPOSE, JUSTIFICATION AND OBJECTIVES

PURPOSE

The purpose of the National Committee on [illegible] Employee Pension Systems (PEPS) is to conduct research on, to increase [illegible] awareness of, and to provide information about, the impending crisis in [illegible] pension systems in the United States.

JUSTIFICATION

Economic.—The costs of federal pensions are escalating rapidly, far beyond the provisions and ability to pay for them. The federal government's liability for unfunded civilian and military pension obligations is rising by over $140 billion a year. These obligations, now totalling more than one trillion dollars ($1,000,000,000,000), impose a horrendous burden on present and future generations of Americans.

Justice.—Inequities permeate the present conglomeration of federal retirement systems, providing windfalls to some and shortfalls to others. Even greater inequities exist between public and private pension plans. PEPS seeks to reveal these inequities and to analyze alternative public pension systems which are not only sustainable but just: just to beneficiaries and just to taxpayers.

OBJECTIVES

PEPS will pursue increased public awareness and knowledge about the following alternatives:

Extension of Social Security Coverage; modification of post-retirement benefit increases (indexation); modification of existing early retirement provisions; revision of standards for disability retirement; coordination of federal government retirement plans; reform of military pensions; and development of improved methods of funding and financial disclosure for public pensions.

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[1] Washington Post/ABC News Poll, January , 1983.

MEMBERSHIP OF THE NATIONAL COMMITTEE ON PUBLIC EMPLOYEE PENSION SYSTEMS

Richard Barnes, Attorney; Former AP Reporter, Washington.

Joseph Bartlett, Chairman, Universal Social Security Coverage Study Group, Former Under Secretary of Commerce.

Ewa Bielski, Chairperson, Citizens' Committee on Pension Policy.

Richard Bolling, Chairman, House Rules Committee, Joint Economic Committee.

Alan Boyd, Former Secretary of the Department of Transportation, Former President of Amtrak.

Lyman Brown, Economics Major, College of William & Mary, Former Intern, PEPS.

William Carey, President, American Association for the Advancement of Science, Former Assistant Director, Bureau of the Budget.

Douglas Cater, Former Vice Chairman, London Observer, Former Editor, Reporting Magazine.

Jack Conway, Former Vice President, United Auto Workers, Former President, Common Cause.

John Corson, Author, Economic Needs of the Elderly, Former Director of the Social Security Administration.

Francis Crowley, Retired Social Security Specialist, Library of Congress, Former Staff Director, National Commission on Social Security.

Gordon Donald, Vice President/Secretary, PEPS; Economist, Editor, Development Digest; Board Chairman, National Economist Club.

Robert Giamo, Chairman, Committee, for a Responsible Budget.

Bryce Harlow, Former Presidential Advisor.

Olive Hunt, Public Relations Coordinator, PEPS, Former White House & Congressional Staffs.

Hastings Keith, Co-Chairman, PEPS; Former Member of Congress.

James W. Kelly, Retired Social Security Specialist, House Ways & Means Committee.

Philip P. Klutznick, Former Secretary of Commerce, Former Vice Chairman, Committee on Economic Development.

Hyman Krieger, Retired Director, Federal Personnel & Compensation Division, GAO.

Leonard Lesser, Former Counsel to the Social Security Department, U.A.W., General Counsel, Center for Community Change.

John W. Macy, Jr., Co-Chairman, PEPS; Former Chairman, Civil Service Commission, Former Chairman, Public Broadcasting Corp.

Malcolm MacIntyre, Attorney, Former President, Eastern Airlines, Former Under Secretary of the Air Force.

John Miller, Former President, National Planning Association.

Charles Morris, Former U.S. Treasury Department Employee.

Otis Pike, Former Member of Congress; Syndicated Columnist.

William O'Reilly, CPA, Director, W. M. O'Reilly & Co.; Lecturer, Economics & Accounting, Former Assistant Comptroller, U.S. Postal Service.

Bruce Palmer, LCDR. USN (Ret.); Former Consultant, Defense Manpower Commission.

Robert Patricelli, Senior Vice President, CIGNA; Former Assistant Secretary, HEW.

Rita Ricardo-Campbell, Member, President's Economic Policy Advisory Board, Chairman, Ronald Reagan's Task Force on Social Security (1980).

Elliot Richardson, Attorney, Former Secretary of Defense, Secretary of HEW and Attorney General.

George Sawyer, Editor, Aspen Report—"The Quiet Crisis of Public Pensions", President, Management Technology & Resources.

Sylvester Schieber, Research Director, Employee Benefit Research Institute, Universal Social Security Coverage Study Group.

Roy Schotland, Professor of Law, Georgetown University Law Center, Specialist, Pensions.

Raymond Shafer, Partner, Coopers & Lybrand; Former Governor of Pennsylvania.

Henry Smith, Executive Director, Con West; Former Member of Congress.

Francis Spaniola, Chrmn., Committee on Sr. Citizens & Retirement, Mich., House of Reps. Member, National Conference of State Legislatures' Pension Committee.

Elmer Staats, Former U.S. Comptroller General.

Joseph Swidler, Attorney, Founder, TVA Retirement System Former Chairman, Federal Power Commission.

Sid Taylor, Retired Military/Civil Servant, Research Director, National Taxpayers Union.

James Webb, Former NASA Administrator, Former Director, Bureau of the Budget.

Nancy Wilson, House Budget Committee Staff, Economist & Journalist.

Suzanne Woolsey, Partner, Coopers & Lybrand, Former Associate Director, Office of Management & Budget.

Charles Zwick, President, Southeast Banking Corp., Former Chairman, President's Commission on Military Compensation, Former Director, Bureau of the Budget.

ADDENDUM TO MEMBERSHIP

Donald C. Alexander, Attorney; Former Member, IRS Commission on Federal Paperwork.

Preston C. Bassett, Actuary Former Consultant to President's Commission on Pension Policy.

Carleton Burrill, Trustee, Whitman, Massachusetts.

William G. Colman, Consultant on Governmental Affairs and Federal, State, Local Relations.

Walter Judd, M.D., Former Member of Congress.

Alicia Munnell, Vice President/Economist, Federal Reserve Bank of Boston.

James J. O'Leary, Economic Consultant, U.S. Trust Company of New York.

James Walker, Economist; formerly of the Department of Labor.

AMERICAN FEDERATION OF STATE, COUNTY, AND MUNICIPAL EMPLOYEES (1977 ADVERTISEMENT)

IS YOUR CONGRESSMAN SERIOUS ABOUT THE SOCIAL SECURITY CRISIS?

The wrong vote in Congress tomorrow could deny you and millions of other Americans Social Security protection.

On Wednesday October 26, the House of Representatives votes on the Social Security Financing Bill.

What price does the public pay if Congress does not extend Social Security coverage to all Americans?

Ninety million taxpayers will pay more taxes. A bigger chunk will be taken out of your paycheck.

3.6 million state and local workers and all federal employees will not have the protection of Social Security.

State and local governments with seriously unfunded pension plans will not be able to provide decent benefits to their employees without Social Security.

Rip-offs of the Social Security system will continue by those who draw benefits without having paid their fare share.

The solvency of many small businesses could be threatened by accelerated tax pressure to fund the Social Security system.

These are just some of the problems that will face Americans unless *everyone* gets Social Security protection . . . unless *all* federal, state and local emloyees are brought into the system.

The Social Security system needs help in a hurry. Too much is at stake to engage in foot dragging. We say pass the bill now *as it stands, with universal coverage.*

We agree with the Honorable Al Ullman, Chairman of the House Ways and Means Committee, who wrote his colleagues:

"This bill will place the Social Security system on a fiscally sound basis well into the 21st century . . .

"It is of the utmost importance that we pass this responsible legislation . . . intact."

The adoption of this bill, without amendments, will provide Social Security protection for all Americans, and begin to resolve the Social Security crisis.

[Copy of a release published by John Erlenborn which shows the unfunded liabilities of most large federal pension plans. Notations have been made to indicate whether the plans are integrated with Social Security. Note that those plans which are integrated are considerably less costly than those which do not provide Social Security benefits as a floor of protection.]

FEDERAL PENSION FACTS

[1980 plan year]

Plan	Participants		In millions of dollars			Unfunded actuarial liability per active participant	Integrated with social security
	Active	Retired, survivors, deferred vested	Assets	Present value of accrued benefits less assets	Unfunded actuarial liability		
1. Civil Service	2.700,000	1,929,000	$72,890	$357,300	$469,500	$173,889	No
2. Military	2,888,000	1,332,000	0	348,900	431,100	149,273	No
3. Foreign Service	9,401	7,153	673	3,692	4,990	530,795	No
4. Federal Reserve Board and Bank (2 plans)	26.035	9,571	850	171	340	13,041	Yes
5. Nonappropriated fund plans for civilian employees of military exchanges (7 plans)	59,065	14,874	762	51	591	10,013	Yes
6. Farm Credit District Plans (11 Reporting Districts)	12,812	2,446	156	26	64	4,980	Yes
7. TVA	27,789	6,082	776	45	486	17,500	Yes
8. National Oceanic and Atmospheric Administration Corps plan	365	156	0	83	118	323,288	No
9. Comptroller General plan	1	2	0	1	1	1,006,000	No
Total [1]	5,696,330	3,295,614	75,465	710,046	906,848	159,198	No

[1] Excludes 4 plans not reporting on time (U.S. Coast Guard, U.S. Public Health Service, Federal Home Loan Mortgage Corporation, Columbia, S.C. Farm Credit District) and 5 defined contribution plans maintained by Farm Credit Districts.

STATEMENT OF WILLIAM G. COLMAN

My name is William G. Colman, age 68, residing at 9805 Logan Drive, Potomac, Maryland, a private consultant in the field of public finance and administration, a member of the National Committee on Public Employee Pension Systems (PEPS) with former service in both elected and appointive office in Montgomery County, Maryland.

Professional experience directly related to the Commission's report includes: (1) Executive Director, U.S. Advisory Commission on Intergovernmental Relations (ACIR) (1960-1970, and an occasional consultant to the agency thereafter), which included on occasion the direction of research on the intergovernmental aspects of public employee pension systems; (2) research, writing, and university teaching during the past twelve years in public finance, urban affairs, and federal-state-local relations, involving frequent and continuing use and analysis of national and regional income security data; (3) as a local government legislator, helping manage the enactment in 1978 of a comprehensive pension system reform package for Montgomery County, involving integration with Social Security; and (4) most recently, as a member of the Task Force on Local Government, sponsored by the Greater Washington Research Center and chaired by former Defense Secretary Robert McNamara, examining in considerable depth the escalating labor and pension costs of the six major jurisdictions making up the Washington Metropolitan Region (Arlington, Fairfax, Montgomery and Prince Georges counties plus Alexandria and the District).

This statement is directed to Recommendations Four, Five, and Eight of the Commission's report and is in support of all three of these proposals.

COVERAGE OF FEDERAL EMPLOYEES (NO. FOUR)

This is a long overdue step, although historically opposed by federal employees on the ground that it would undermine a very satisfactory "employee financed" retirement system. Actually the system is faulty in several respects.

It is: (1) Inadequate in coverage and, unlike Social Security, is non-portable in benefits (only one-fourth of those working in the federal civil service eventually receive benefits); (2) inequitable in financial treatment of retirees as opposed to workers (as discussed below in relation to cost-of-living benefits, i.e. COLA's) and in providing overly generous benefits to the one-quarter fortunate few, to the detriment of the other three-quarters never qualifying; and (3) imprudent in financial arrangements, with combined agency-employee contributions meeting less than half the cost of benefits, with the balance drawn from the general Treasury revenues, in contrast to Social Security which, to date, has had to live within the means generated by employer and employee contributions. Restructuring the civil service retirement system as a supplement to Social Security, along the lines of many private plans, is a difficult and immediate task confronting the Congress.

COST OF LIVING ADJUSTMENT DELAY (NO. EIGHT)

Full CPI-based COLA's during recent years of high inflation have had devastating fiscal and equity impacts upon Social Security, civil service and military retirement systems, and other entitlement programs, far outpacing salary and wage growth and creating widening financial gaps between workers and retirees. This has been especially marked in the federal civil service system, due to full benefit indexation and, in a substantial number of cases, the double-counting of military service for both military and civil service retirement purposes. For a long while these overly generous features were further enriched by such indefensible sweeteners as the "look back", the one percent "kicker", and twice a year COLA's.[1]

The growing inequity between salaries and wages on the one hand and retirement benefits on the other—both in Social Security and civil service/military systems—is perhaps illustrated in my own case. At age 68 I am self-employed, running a business; a Social Security beneficiary with 15 years' work in the private sector; a Naval Reserve officer drawing retired pay; and a civil service retiree with 27 years' service (including four double-counted active duty years in the military). All three pensions have been increasing dramatically, far above my increases in living costs (the CPI tending to overstate inflation on the upside and understate it on the downside). Since my retirement from federal service 13 years ago, my monthly benefit amount has nearly tripled! By contrast, during the same period, the salary of the position vacated by me has increased by 77 percent. My benefit is 140 percent of the benefit an employee of the same age, grade amd service years would receive if retiring this coming April 1.

The shocking comparisons afforded by this example are shomwhat modest, as shown by recently published data (Washington Post, January 17, 1983) from the President's Advisory Committee on Federal Pay, indicating that for the period 1970–1981, average civil service monthly pensions increased 240 per cent, compared with increases in the CPI of 147 percent; private white collar pay, 129 percent; and federal white collar pay only 98 percent. Social Security benefits have increased less drastically, but still substantially beyond the salary and wage rates that support those benefits.

An obvious first step in bringing Social Security benefits into a more appropriate relationship with wages is a stretch-out of the kind recommended by the Commission. However, further adjustment is needed, including the placing of a partial or total cap on future COLA's for those annuitants and retirees such as myself whose benefits have so far outstripped wage and salary growth.

TERMINATION OF WITHDRAWAL OPTION FOR STATE AND LOCAL GOVERNMENTS (NO. FIVE)

This recommendation may be objected to by some state-local governments on constitutional or federalism grounds, but this problem seems negligible since these governments entered the system voluntarily in the first place. Furthermore, such a step is imperative in light of the strong relative weight given to tax increases in the mix of recommendations. These increases can accelerate the already widespread flight of state-local government from the system, as they struggle to bring their own supplementary systems into better line with economic, demographic and fiscal reality.

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[1] Although the "kicker" was discontinued in 1976, for the time it was in effect ten of millions of dollars were added to pensions of federal retirees each month. These overpayments became part of the base on which all subsequent COLA's have been and will be computed. The residual effects of this continue to disportionately over-compensate those who retired prior to 1976 and their survivors, producing cumulative costs in the tens of billions of dollars over the next half century. The Congress could correct this now by freezing these pensions until such time as the cost of living catches up with this over-compensating component of the COLA. Inasmuch as general revenues are used for COLA's, the taxpayers could be saved tens of billions of dollars.

Future consideration needs to be given to the mandatory coverage of state-local employees on a prospective basis; however, the fiscal impacts, as well as legal questions arising from the Tenth Amendment and state court decisions, are quite complex. The Tenth Amendment argument against mandatory coverage may not be quite as insuperable as believed by some. Last year the U.S. Superme Court let stand the mandatory inclusion of state and local government employees under unemployment compensation on a nation-wide basis.

A concluding comment on one of the longer range problems of the Social Security system with which the "consensus" package of the National Commission does not deal: The competitive position of the United States in international trade can be further eroded if the fringe benefit segment of labor costs is pushed to high, under a sharply increased burden of payroll taxation. Also, unless benefits, or adjustments to benefits in the Social Security, federal, and other public pension systems are brought into more equitable relationship with the salary and wage bases that support them—rather than relying on increased taxes on the working population—inter-generational conflict and distrust may be generated which would threaten the nation's future social fabric.

We "senior citizens" do ourselves and the country a disservice by clinging tenaciously to economic advantages justified exclusively on chronological age that come at the expense of our younger, working citizens.

TESTIMONY OF CHARLES L. MORRIS

I am grateful to be able to testify before your distinguished committee.

I am a retiree of the U.S. Treasury Department, where I held a succession of obscure jobs, receiving on my retirement the usual extravagant commendations and the Albert Gallatin award for long and faithful service. I served 42 years.

I just want to say what everyone must realize: that the huge budget deficits which impend for the next few years are threatening the stability of our Federal Treasury unless they are trending downward from now on.

In order for this downward trend to become a fact, all Americans above the poverty level must participate in the necessary sacrifices, including the cancellation of the July 1983 tax cut, if this can be called a sacrifice.

Federal pensioners, both civilian and military, must shoulder their part of the burden.

The particulars of this burden must be carefully calculated and articulated, with justness and fairness to all concerned, by actuaries, demographers, statisticians—areas beyond my competence.

But I have no hesitancy in stating, that in my view, unselfishness, common-sense, and, yes, some old-fashioned patriotism are urgently needed at this juncture; and it is up to all Americans who benefitted by generous allotments from the economy to be willing to make some sacrifice in order to restore our fiscal equilibrium.

I fervently hope that my fellow Federal retirees, both civilian and military, will see fit to make some accommodation along these lines for the benefit of the budget, the economy and the unemployed, and not offer shortsighted obstruction that fails to take into account the long-range picture and the general good.

Charles L. Morris is the grandson of a former slave who instilled in him a strong tradition of financial prudence. After 42 years with the Treasury, he retired in 1965 with a federal pension of $395 per month. Because of cost-of-living adjustments, his annuity now exceeds $1400 per month. The following letters, published in the Washington Post, express Mr. Morris' uniquely articulated views about the overly generous and extraordinarily costly federal pension program.

DECEMBER 12, 1975

Here we go again. Mike Causey in the Federal Diary reports today in the Post (Nov. 21) that another raise is in the works, due next March, for two million former civil service and military retirees. I am a civil service retiree, and I want to state that this news is not at all pleasing to me.

There was an article in the paper a short time ago reporting an increase in personal income. It was pointed out that the increase was in a large measure attributable to raises granted federal employees, active and retired, during the past year.

Inflation is now a seemingly incurable economic disease. As soon as we begin to believe that we have it under some little control, these recurrent increased federal payments, made with short term borrowed money rolled over and over, added to other world-wide economic distortions, help promote the continuing inflationary fevers.

If new laws are needed to correct this chronic condition, they should be considered by Congress promptly, the election year ahead notwithstanding. If the country must endure more austerity for the time being in order to regain fiscal and economic equilibrium, then federal employees, both active and retired, civilian and military, ought to share the deprivations and burdens the same as the private sector of the economy, especially with the public debt soaring above the half-trilion mark and headed straight up.

And maybe the lesson of New York is not altogether inapplicable, where increasing millions of borrowed money for current expenses was rolled over and over again, piling up an enormous unmanageable debt which ended up in disaster.

MARCH 26, 1981

I wonder if David Stockman and his budgeteers might be interested in a little calculation I have just done.

On a federal annuity of $14,000 the recently announced increase of 4¼ percent comes to $630. Now if the government really had the money in hand to pay this increase, that's all it would amount to. But the money is not there. It has to be borrowed, and the current rate on Treasury bills is around 15 percent. That brings the cost of the increase to more than $724 for the year, not $630—quite a difference. This same process has been going on for years for millions of federal civil service retirees, contributing much to the national debt, now approaching a trillion dollars, and exacerbating the inflation the increase is supposed to compensate for. Is there no solution to this vexing problem?

SMALLEY, COGBURN & FLYNT,
ATTORNEYS AT LAW,
Griffin, Ga., October 25, 1982.

Hon. HASTINGS KEITH,
Hon. JOHN W. MACY, Jr.,
Co-Chairmen, PEPS,
Washington, D.C.

DEAR HASTINGS AND JOHN: Congratulations on having both the courage and the facilities to undertake something I have long advocated:

Trim the sails of the unrealistic escalation of retirement benefits!

Within weeks of my retirement in January 1979 I urged the House Majority Leader to take some action soon to do two things:

A. Repeal the automatic salary increases for federal employees; and

B. Repeal the automatic increases for federal retirees.

If both these were done new law providing for increases only when specifically enacted by Congress could supplant the present system.

The present system, instead of keeping up with inflation, is perhaps the greatest single cause of inflation—not by the amounts involved but because it tends to set the guidelines for escalating other costs, prices, wages and salaries.

Retirement age for federal employees should be not less than 62 and preferably higher. Let them retire early but withhold benefits until, say, 62.

Retirees, civilian or military, should not be allowed to draw full retirement pay and full second career pay. This has been partially corrected but only partially.

All federal employees should be integrated into the Social Security System. If Congress wants to create an additional and separate retirement system, paid for by employer-employee contributions, well and good. Social Security contributions should be identical for federal employees and private industry employees alike.

You probably have more and better thoughts on this subject than I have set out above but I wanted to share the above with you.

I enclose a check to help defray the costs. I shall gladly serve actively if you want me to.

Sincerely yours,

JOHN J. FLYNT, Jr.

Enclosure.

P.S.—One more suggestion: Repeal the provision which allows a federal employee the option to remain out of the system and buy in later at a ridiculously low amount. Let an employee join at any time but do not give service credit for the time prior to joining. If an employee withdraws from the system and draws down his contributions, disallow credit for prior service if he enrolls again at a later day.

Mr. SHANNON. Mr. Schieber.

STATEMENT OF SYLVESTER J. SCHIEBER, PH. D., RESEARCH DIRECTOR, EMPLOYEE BENEFIT RESEARCH INSTITUTE

Mr. SCHIEBER. Thank you, Mr. Chairman. I am pleased to appear before you today to discuss the current deliberations on social security financing.

If I have time, I am going to focus primarily on two issues: First, the expansion to include new Federal workers; then, second, social security's long run financing situation. I am going to speak specifically to some of the points that were being made in earlier comments in the panel prior to this one, and I am going to speak to four specific points.

The first point is the underfunding in the civil service retirement system, and the contention that it is a result of early contributions or lack of contributions on the part of the Federal Government. If you look at data that is published by the Office of Personnel Management in a book called "Federal Fringe Benefit Facts," and you look at the historical relationship between contributions by the employees and employer, what you find is that between the period 1921 and 1928 the employer did not make any contribution to the plan.

By comparison, the employees contributed $142.7 million. Now had the Federal Government matched those contributions and had those contributions been accumulated with interest, the value of that additional contribution today would be worth something less than $1 billion.

If you look at the total period 1921 through 1955, the first 35 years of the program, the net employee contributions to the system—that is, net total contributions minus employee withdrawals—because employees leaving the system take out their own contributions—the net employee contribution to the system in the first 35 years were $3.65 billion. The net employer contributions, not including any interest payments, were $3.40 billion.

So there is one-quarter of $1 billion difference in the employer versus the employee contribution. If those had been accumulated with interest, we would have roughly $4 to $5 billion more in the system today.

By comparison, of the roughly $500 billion in unfunded promises on the CSRS books at the end of fiscal 1981, nearly one-quarter, 23.8 percent, arose during 1980 and 1981. The growth in the CSRS unfunded liability in 1980 and 1981 was more than 10 times the total accumulation of unfunded liability over the first 35 years of the program.

It is clear that the current CSRS is largely dependent on taxpayer support to meet its current benefits, and it continues to accumulate added liabilities for future generations of taxpayers as well.

The second point that was discussed this morning is the question of what some people call double dipping or windfalls. Personally, I have always found the double dipping description to be somewhat of a misnomer. However, the Social Security Administration in a research and statistics note that was published during December 1982, indicated that of those Federal annuitants aged 62 or over, 73 percent were entitled to cash benefits in 1979.

If one goes back and looks at 1975, the number then was only 64 percent. So the number of dual recipients is growing very rapidly. For many years the Congress has been aware of the windfall problem that is created by dual receipt of both CSRS and social security.

In a House report on the 1939 social security amendments, it stated, "In the long run, however, such bonuses are unwise and endanger the solvency of the system by permitting disportionately large benefits to workers who migrate between uninsured and insured employment and accumulate only small earnings in insured employment." So the Congress has been aware of this problem for a very long time, and it is a very substantial problem.

The third issue that I wish to discuss regarding the coverage of Federal workers under social security, is that coverage will cost taxpayers more. There is some contention in the testimony that you heard earlier that the National Commission on Social Security Reform was not concerned about this issue, and I would like to contend to the contrary.

During the deliberation of the National Commission, one of the Commissioners' staff people approached me and asked me to do a budgetary analysis of a bill that was introduced by Senator Ted Stevens in the Senate during the last session. My analysis, with the help of Ed Hustead, concluded that there would be a very substantial savings to the taxpayers if we moved to such a system. There was no contention on my part that we should move to that system, merely a budgetary analysis of the proposal.

The results of my analysis are shown on page 10 of my prepared testimony, and if you summed the savings between the period 1984 and 2021, what you will find is there would be some $200 billion of current dollar savings to the taxpayers if we moved to such a system.

If you look at the Postal Workers' analysis, which is also attributed to Mr. Hustead, on the other hand, we see that there would be a net cost to the taxpayers of over $640 billion. Now that is a swing of nearly $1 trillion in the taxpayer cost and both of us supposedly have been working with Mr. Hustead.

I think if you are concerned about these analyses, what you should really do is try to get Mr. Hustead up here to address the analyses that are being done.

The fourth issue I would like to address is the contention that social security would be the net loser, if all workers were covered. I have been analyzing this issue for several years. I was the deputy research director at the Universal Social Security Coverage Study and have been party to several analyses that have been done subsequently on this issue. Never in all of my years of studying this issue have I seen any estimates that covering Federal workers would raise the cost of social security.

In the second section of my testimony, I discuss the issue of the long-term financing problem, the residual deficit that exists even if the proposals submitted by the National Commission were implemented. Here I try to argue that in order for there to be ongoing public support for this program there has to be a perception that the system is going to be solvent over the long run.

It is my understanding from recent press accounts that raising the social security retirement age is out. In my prepared remarks I present an alternative to raising the retirement age. This alternative would gradually adjust the social security benefit formula so there would be a very gradual reduction of the replacement rate of final earnings that the system provides.

The analysis is shown pictorally on page 15 of my prepared testimony. The top line in Figure 1 shows the projected growth in social security benefits and social security benefits in 1982, constant dollars, under current law. The figure shows that between 1985 and 2015, the average retiree at age 65 would experience an increase of about 70 percent in purchasing power based upon their social security benefits.

If you implemented an adjustment to the benefit formula, that would reduce the replacement rates by about three to four percentage points, instead of having a 70-percent increase in purchasing power over the period, the average beneficiary would only experience about a 60-percent increase.

Figure 2 shows some simulation results where we analyzed the effect of current law in comparison to the benefit formula adjustment just discussed, in terms of its effects on total income. That is the difference between the top line and the dotted line that is the middle line. The bottom line shows the effect of taxing 50 percent of benefits. Both analyses show benefits or income would continue to rise throughout the transition period.

With that, I will terminate my comments.

[The prepared statement follows:]

STATEMENT OF SYLVESTER J. SCHIEBER, RESEARCH DIRECTOR, EMPLOYEE BENEFIT RESEARCH INSTITUTE

Mr. Chairman, I am pleased to appear before you today to discuss the current deliberations on Social Security financing. I appear today in my capacity as Research Director of the Employee Benefit Research Institute. EBRI is a nonprofit organization dedicated to providing research and analysis which can serve as the basis for sound policy toward employee benefits. EBRI as an institution does not taken positions on public policy issues. Prior to joining EBRI, I served as the Deputy Director of the Office of Policy Analysis in the Social Security Administration. Prior to that I was Deputy Research Director of the Universal Social Security Coverage Study, a study mandated by Congress in 1977.

I have recently written, and EBRI has published, a book entitled "Social Security: Perspectives on Preserving the System" that focuses on the evolution of Social Security in this country, its current financing problems, and the prospects for the future. The analysis looks at Social Security in the framework of the larger retirement income security system in this country. While my analysis touches on many aspects of the issues surrounding Social Security today, I will focus primarily on two issues; first, the expansion of coverage to include new federal workers in the future, and second, Social Security's long-run financing situation.

SOCIAL SECURITY COVERAGE FOR FEDERAL WORKERS

The proposal by the National Commission on Social Security Reform to cover federal workers will likely create more controversy than any other element in the package. It is the only recommendation in the package being attacked in a coordinated media compaign.

There are three principal reasons generally cited for extending Social Security coverage to workers now exempted from participation. These are: (1) inadequate income protection for persons not covered by Social Security; (2) inequities inherent in partial exemption from participation in a mandatory redistributive program; and (3) subsidized benefits afforded partial participants in Social Security.

Inadequate Protection for Persons Not Covered.—Most workers not covered by Social Security are covered by pension plans sponsored by their employers. Both Social Security and the typical pension plan require a period of employment under the retirement program before the worker is eligible for insurance protection. As a result, workers who have jobs not covered by Social Security or who shift between covered and noncovered employment may experience periods without disability and survivor coverage.

Public pension plans usually require at least five years of service before the worker receives disability protection. Many employees in the initial five years of service are young people holding their first major jobs who have no other pension protection. Although disability is unlikely for most young workers, it does occur and the worker is often without insurance or assets.

Workers who leave federal employment without CSRS annuity status, for example, are the least likely to have Social Security coverage and are the most likely to need it. Of workers who left federal employment between 1973 and 1977, an average of 39 percent of the men and 63 percent of the women were not insured against disability.

Workers in employment not covered by Social Security also experience gaps in benefits. These gaps arise because many of the alternative pension systems do not provide disability and survivor benefits comparable to those provided by Social Security. A twenty-one-year-old worker can acquire Social Security disability protection with credited earnings for six quarters of work in covered employment; in fact, these credits can be earned with as little as one month of covered employment in two consecutive years. To become insured under CSRS, the same person would have to work five years for the federal government.

Inequities Inherent in Exemptions from Participation in a Mandatory Redistributive Program.—Career noncovered workers are exempted from paying into an income-redistributive program that provides proportionately more generous benefits to low-wage than to high-wage workers. Part of the payroll tax contributions of high-wage covered workers is used to provide more generous benefits to retirees with low average lifetime earnings than they would otherwise receive if Social Security were not tilted to favor low-income workers. The highly paid noncovered worker does not share this burden. There is nothing inherently different in the employment of noncovered workers that differentiates their work from that of noncovered workers. There are accountants, lawyers, economists, actuaries, blue-collar workers, clerks, and secretaries in both the covered and the noncovered sectors. The only distinction is that some workers are employed by employers who do not participate in the system.

It should be kept in mind, however, that some noncovered employees are low-paid workers who would actually benefit from expanded coverage. Women, for example, would benefit from wider Social Security coverage. Approximately 28 percent of women employed by the federal government in April 1978 had annual salaries below $10,000, whereas only 7 percent of the federally employed men did. Conversely, only 8 percent of the Federally employed women had salaries above $20,000 in 1978, whereas 31 percent of the men did. Similarly, members of minority groups would benefit from the redistributive aspects of Social Security. Only 12.9 percent of the whites employed by the federal government had annual salaries below $10,000 in April 1978, but 19.4 percent of minority group employees did. In comparison, 11.6 percent of minority federal workers has salaries exceeding $20,000 per year, while 37.5 percent of white Federal workers had such salaries in April 1978.

It is the redistributive aspect of Social Security that also gives rise to the third set of problems which many people believe constitutes the most important inequity resulting from the current pattern of Social Security exemptions.

Benefits Afforded Partial Participants in Social Security.—Workers with periods of noncovered employment who qualify for Social Security benefits receive higher benefits in proportion to their contributions to Social Security than do workers with only covered employment. It is important to understand that although this difference is quantifiable, the issue is still highly emotional and controversial. Language must be selected carefully so that the issues are not obscured by rhetoric.

Frequently, people who have a favorable ratio of benefits to contributions from Social Security because of periods of noncovered employment are characterized as "double dippers." The attribution is misleading and brings a perjurative tone to the discusion. Both the description and the policy solutions that have been put forward to solve the "double dipper" problem reflect a lack of understanding of the problem or of potential effective solutions.

"Double dipping" suggests receiving dual compensation or benefits based on one period of service. For people who work in noncovered employment, there is little double attribution of service both to a noncovered pension system and to Social Security. Dual beneficiary status occurs because recipients have complied with mandatory provisions under both covered and noncovered employment. While working in noncovered employment they contributed to their pension plan and became eligible for benefits. While working in covered employment they contributed to Social Security and met the eligibility requirments for a Social Security benefit as well. Many of those who receive preferential treatment from Social Security becuase of noncovered employment receive absolutely no retirement benefits from the noncovered employer's pension plan.

A more appropriate description widely used in the literature characterizes the relatively generous payments to people with periods of noncovered employment as "windfall benefits." The Universal Social Security Coverage Study characterized the windfalls as "unintended subsidies." Historical Congressional concern about unintended subsidies dates back to 1939 when the House of Representatives' Report on the Social Security Act Amendments of 1939 stated:

> An average wage formula will also have the effect of raising the level of benefits payable in the early years of the system, but it will reduce future costs by eliminating unwarranted bonuses payable under the present formula to workers in insured employment only a few years. These bonuses are justified, if a total wage formula is used, in the case of older and low-paid workers who retire in the early years of the system and have not had time in which to build up substantial benefit rights. In the long run, however, such bonuses are unwise and endanger the solvency of the system by permitting disproportionately large benefits to workers who migrate between uninsured and insured employment and accumulate only small earnings in insured employment.[1]

The Universal Social Security Coverage Study, which was mandated by the Congress as part of the 1977 Social Security Amendments, quantified the costs of these unwarranted bonuses from Social Security. The estimate is that the total bonuses exceed $2 billion per year. These are costs incurred by Social Security and borne by the taxpayers who contribute to the program. While another recommendation by the Commission would reduce these windfalls over time, extending coverage to new federal workers would help to ameliorate the problem more quickly.

IMPLICATIONS OF COVERING FEDERAL WORKERS

Several of the organizations that represent federal civilian and postal workers have begun a full-scale attack on the proposal to cover new Federal workers under Social Security. In each instance, the presentation distorts the facts pertinent to the consideration of this proposal made by the National Commission on Social Security Reform. These presentations make three basic points.

First, they allege that without new contributions the Civil Service Retirement System (CSRS) would go bankrupt and taxpayers would have to shoulder the burden. The inference is that employee contributions assure the solvency of the CSRS—dry them up and benefits cannot be paid. The fact is that if employee contributions were the only source of income to CSRS the fund would be depleted by 1987 or 1988 at the latest. Even if the system operated in the fashion that many federal workers believe (i.e., employee contributions plus a matching agency contribution plus trust fund interest) the fund would be depleted sometime between 1993 and 1995. The fact of the matter is that the current CSRS is primarily dependent on taxpayer support on whatever basis the cost of the system is considered.

There are those who argue that taxpayer support is now required because of past imprudence: massive liabilities (i.e., benefit promises) were accumulated but never funded. The National Federation of Federal Employees argues that "the unfunded deficit originated because the federal government failed to pay its share into the fund from 1920 to 1956." It is not clear what the government's "share" was during this period but employee contributions net of refunds were only one-quarter of one billion dollars more than government appropriations and contributions for the period 1920 to 1955. The total unfunded liabilities of the CSRS at the end of 1955 were less than $10 billion. By comparison, of the roughly $500 billion in unfunded benefit promises on the CSRS books at the end of fiscal 1981, nearly one-quarter (23.8 percent) arose during 1980 and 1981. The growth in the CSRS unfunded liability in 1980 and 1981 was more than 10 times the total accumulation of unfunded liability over the first 35 years of the program's existence. It is clear that the current CSRS is largely dependent on taxpayer support to meet current benefits payments; it continues to accumulate added liabilities for future generations of taxpayers as well.

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[1] House of Representatives, 76th Congress, First Session, Report No. 728, Social Security Act Amendments of 1939 (June 1, 1939), p. 10.

The second point that opponents of expanded Social Security coverage argue is that covering new federal workers will mean higher future budgetary costs for federal retirement. The budgetary cost of the CSRS can be described by the following simple formula:[2]

(1) CSRS Budgetary Cost benefits plus refunds minus employee contributions.

If new federal workers are covered under Social Security and a supplemental pension is established the implications for taxpayers will depend on several factors. In order to show the budgetary impact of covering new Federal workers under Social Security and a modified pension I have analyzed and will discuss a proposal that captures the essence of a bill (S2905) introduced by Senator Ted Stevens (R. Alaska) during 1982.

Senator Stevens' bill called for Social Security coverage coordinated with a modified federal pension for new Federal employees beginning in 1983. That is the implementation year used for this analysis; using 1984 as the first year would not significantly change the analysis or results. The analysis here breaks the ongoing costs of the total system into two components: (1) the ongoing costs associated with the closed system that would apply to old hires, and (2) the costs of the new system covering future employees. The budgetary costs of the separte systems can then be aggregated to get the combined system's cost.

The total budgetary impact of modifying CSRS is different from the effect on the various accounts taken separately. Both CSRS and Social Security are now within the unified budget. Segregating the old and new systems, the costs for the various accounts can be considered as follows:

(2) Closed CSRS Costs = benefits (old plus refunds minus employee contributions.

(3) New CSRS Costs = benefits (new) plus refunds minus employee contributions.

(4) Social Security = Costs benefits (SS) minus employee contributions.

(5) Total Budget Cost = old CSRS cost plus new CSRS cost plus Social Security cost.[3]

Equation (2) is essentially the same as equation (1) discussed earlier, which applied to the current system. The difference is that equation (2) applied only to those workers on the payroll or persons entitled to CSRS benefits (receiving or defered) on the assumed date the modified system would be put into operation. Equation (1), in contrast, assumed that future new workers would continue to be covered under the current system. Equation (3) represents the budgetary cost of the new federal retirement program.

Equation (4) shows the budgetary effects of Social Security coverage of new hires. The budgetary effect is different from the effect of the OASDHI accounts, in that the specific account would be credited for both employer and employee contributions. Since Social Security is in the unified budget, the employer contribution would show up as an expense in the agencies' budgets and as equal trust fund income in the Social Security accounts. The two would cancel each other out.

The total budgetary costs, modifying CSRS as considered here, can be calculated according to equation (5) and compared with the cost of the current system derived on the basis of equation (1). Table 1 shows the projected budgetary cost of the current system and the proposed modified system and the net differences. Based on the projections, moving to the modified system on January 1, 1983, would reduce the budgetary costs of federal retirement by $1 billion over the first five years. While the cost savings during the early years would be moderate in relative terms, the actual numbers that would show up in the unified budget might be affected by moving accounts in or out of the budget. This would not affect taxpayer costs for federal retirement.

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[2] See Sylvester J. Schieber, *The Cost and Funding Implications of Modifying the Civil Service Retirement System* (Washington, D.C.: EBRI, 1982) for a complete discussion of the derivation of these estimates.

[3] See Sylvester J. Schieber, *The Cost and Funding Implications of Modifying the Civil Service Retirement System* (Washington, D.C.: EBRI, 1982) for the detailed projections of the component elements of each of these equations.

TABLE 1.—FEDERAL AGENCY AND GENERAL REVENUE EXPENDITURE PROJECTIONS FOR THE CURRENT CIVIL SERVICE RETIREMENT SYSTEM AND MODIFIED SYSTEM IN CONJUNCTION WITH NEWLY HIRED WORKERS UNDER SOCIAL SECURITY, SELECTED YEARS 1983–2050

[In billions of dollars]

Year	Current system	Modified system	Net savings
1983	$17.9	$17.7	$0.2
1984	20.0	19.9	0.1
1985	22.4	22.2	0.2
1986	24.3	24.1	0.2
1987	26.3	26.1	0.2
1988	28.4	28.1	0.3
1989	30.3	30.0	0.3
1990	32.3	31.7	0.6
1991	34.2	33.7	0.5
1995	42.4	41.6	0.8
2000	54.5	54.7	−0.2
2005	70.8	68.1	2.7
2010	93.2	86.1	7.1
2015	122.4	102.9	19.5
2020	161.9	130.8	31.0
2025	212.6	167.3	45.3
2030	277.7	211.8	65.9
2035	360.0	273.6	86.4
2040	465.7	360.3	105.4
2045	604.1	499.2	104.9
2050	786.7	683.6	103.1

Source: Sylvester J. Schieber, The Cost and Funding Implications of Modifying the Civil Service Retirement System, (Washington, D.C.: EBRI, Aug. 19, 1982). Tables 2, 6, and 8.

The Stevens bill would require coverage of newly hired workers and offer incentives for current workers to move to the new system. The savings from modifying CSRS in accordance with this proposal would grow significantly after the turn of the century as the Federal work force becomes predominately covered by the new system. Ultimately, the savings would grow to nearly one-quarter of the current system's projected cost. The net savings estimates of moving to the modified system do not include any savings that could be realized if social security windfall reduction provisions for old hires were implemented.

In sum, modifying CSRS along the lines of the Stevens proposal would result in significant budgetary savings over both the short and long term. Coverage of new hires under social security would maintain the level of employee contributions for retirement purposes. In a budgetary sense then, any proposal coupled with social security coverage that just maintains or does not increase total federal retirement benefits cannot cost the taxpayers more than the current system.

The third point opponents of social security coverage of Federal workers argue is that such a policy would ultimately raise social security costs. There has never been a set of cost estimates by any of the responsible parties involved that shows the net cost of social security rising as a result of covering Federal workers. Wishing that the numbers showed such a cost increase or merely saying it, does not make it so. In fact, the estimates by the social security actuaries have consistently shown significant short- and long-term savings for other payroll taxpayers if Federal workers are vovered under social security.

THE LONG-RUN DEFICIT

Historically social security policy has attempted to balance the countervailing goals of adequacy and equity through its financing and benefit structure. Until recently, this process has been relatively uncontroversial because virtually all beneficiaries have received, or could expect to receive, benefits that substantially exceeded the value of their contributions. The days are quickly passing when all members of each retiring group of workers can expect to receive more than the value of their combined employer-employee payroll tax contributions. The future balance of adequacy and equity has to be considered in the framework of a broader set of priorities.

Two equally important policy goals for social security are solvency and public support. If these goals are not met, adequacy and equity considerations will become moot. Questions about social security's solvency have shaken the confidence of old and young alike. Without confidence that it is solvent, support for the program will wither.

Intergenerational concerns about social security link the short- and long-term considerations. Policymakers cannot seek solvency with total disregard for either adequacy or equity. There is general agreement across the entire political spectrum that retirees must not be ravaged by program modifications. At the same time, the national commitment to the income security of the elderly must be perceived as a burden equitably shared by all elements of society.

The most prevalent perception of young participants in social security today is that they will never get benefits from the program. Virtually all of the long-term savings in the Commission's recommendations are by-products of their short-term proposals. The implications of the long-term funding deficit cannot be expected to instill public confidence that the National Commission on social security reform has come to grips with a fundamental problem in the program. If Congress fails to address this problem support for social security can only erode further as the short-term adjustments are implemented and the coming Hospital Insurance financing crisis approaches.

Before making any decisions about changes to social security that might help to resolve the long-term deficit it is important to consider the underlying implications of alternative policies. There are two basic approaches for eliminating the long-term deficit: raising additional revenues or slowing the growth in outlays.

Raising additional revenues through the payroll tax or alternative sources would help resolve the projected problem. To raise revenue sources now to the extent required to balance the system over the long term could cause massive trust fund accumulations during the 1990's. Unless provisions are made to handle those trust funds, raising taxes might create even more problems. To merely schedule future tax increases sufficient to meet the long-term problems would be to levy on today's children and those not yet born a burden that current or prior generations have been unwilling to bear. Will future taxpayers be willing to accept that burden? Maybe they will; possibly they won't.

Some analysts will point to several public opinion polls that have been taken in recent years indicating a greater public willingness to accept higher social security taxes rather than benefit reductions. It is not clear what these polls are telling us, however. In a recent Washington Post—ABC News poll 58 percent preferred raising taxes to 21 percent selecting benefit cuts as the way to resolve the Social Security financing problem. But in evaluations of specific recommendations by the National Commission the story was much diffenent. On moving the 1985 scheduled payroll tax increase to 1984, 39 percent favored the recommendation; 55 percent opposed it. On increasing the self-employed payroll tax rate 40 percent favored while 51 percent opposed the increase. When asked about delaying the July 1983 cost of living allowance (COLA) adjustment to January 1984, on the other hand, 52 percent favored this policy while 43 percent opposed it. On the Commission's proposal to tax Social Security benefits 46 percent favored while 49 percent opposed it. With the exception of the latter item, where the responses were within the 3 percent sampling error range of being evenly split. Each of the particular responses was inconsistent with the overall assessment that taxes should be raised rather than benefits reduced.[4]

It is not clear what people perceive when they are confronted with questions related to benefit reductions. The various long-term options that would adjust the normal retirement age in Social Security or gradually reduce the rate of earnings replacement are widely characterized as benefit reductions. This interpretation is only partically correct. What is not always understood is that there is inherent growth built into the Social Security benefit structure that will increase the purchasing power of average benefits in the future. For example, figure 1 shows the growth in average benefits under the current policy simulation in 1982 dollars as the solid upper line. The broken lower line in the figure shows future average Social Security benefit levels under an option that would slow the growth of initial benefit levels through a modification of the benefit formula.

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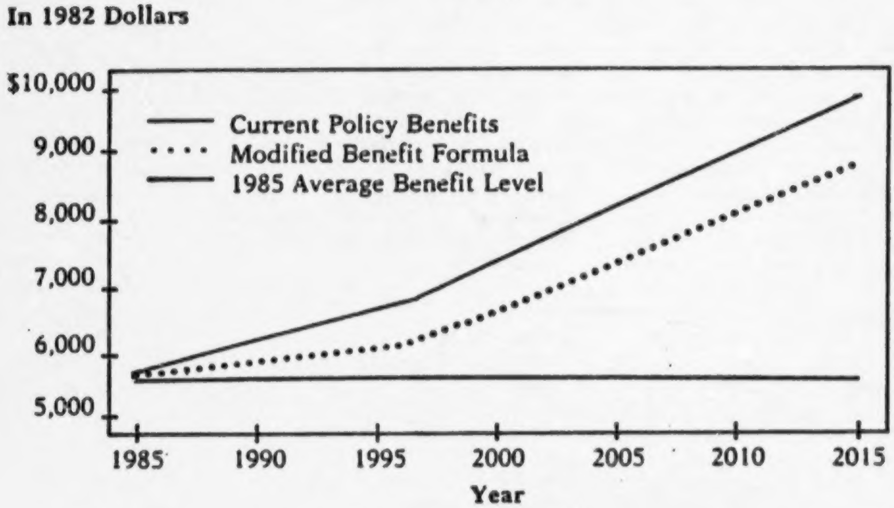
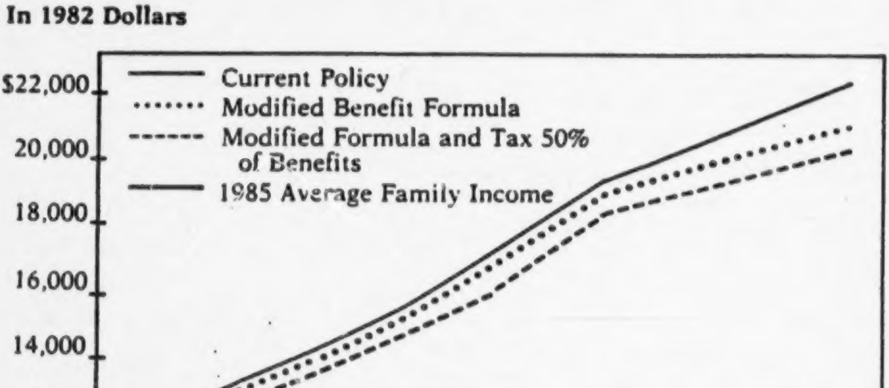
[4] Barry Sussman, "Social Security Plan Splits Public Opinion." The Washington Post (January 27, 1983) p. A4.

FIGURE 1
Future Average Family Social Security Benefits at Age 65



Source: Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: EBRI, 1982) p. xxxi.

FIGURE 2
Future Average Disposable Family Income at Age 65



SOURCE: Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: EBRI, 1982) p. xxxii.

The adjustment to the benefit calculation procedure considered here, for the sake of discussion, would begin in January 1984 and would index the benefit formula "bend points" by 75 percent of wage growth instead of the full wage indexation that is now used to adjust the formula annually. This procedure would be continued for sixteen years under the II-B assumptions used in the 1982 Trustees' Report although a shorter or longer period could be used depending on actual economic experience. The net ultimate effect of this benefit formula modification under the II-B assumptions would be to reduce average Social Security benefits by about 11 percent, when compared with the current policy benefit levels. Yet, over the period, average benefits would continue to grow steadily.

This option can be perceived as providing a real cut in benefits only if the benefits for potential retirees decades hence under the current policy are considered to be firmly committed. It is tenuous to assume that the exact level of Social Security benefits to be paid ten, twenty, or thirty years from now is broadly perceived as that firmly committed. The most important commitment should be to assure that the benefits will be there when people need them and that those benefits will provide a reasonable base of support for the elderly's retirement income security.

COMPARING THE ALTERNATIVES

Setting any retirement age in a national program the magnitude of Social Security is somewhat arbitrary. The establishment of age sixty-five in 1935 as Social Security's retirement age was basically a normative decision. The same can be said about the other facets of the program as well, from the benefit structure to the financing provisions. The prospect facing Congress now is a new set of past decisions. It is possible that if congress were presented with a clean slate, it might design a program significantly different from the one now known as Social Security. But Congress does not have a clean slate; there is a defined structure with an inherent set of obligations. Congress faces the choice between making a set of incremental adjustments or more radically restructuring the existing system.

In our work at EBRI we have compared the implications of various long-run options using a computer model that simulates people's work careers and retirement lives.[5] In the analysis we compared the effects of five options by calculating the present value of Social Security benefits based on the simulated life beyond age sixty-two, under each of the options. We calculated the stream of annual benefits paid each year that a person lived beyond age sixty-two; this calculation included not only worker benefits but spouse and survivor benefits as well. Each benefit was attributed to the person to whom it would be paid; that is, a spouse benefit was attributed to the spouse, not to the primary beneficiary on whose benefit the spouse was based. Annual benefits were calculated in 1982 dollars and discounted by a 2 percent real rate of return back to age sixty-two to give the value of lifetime benefits that would be paid to all persons who reached early retirement age under current policy for each of the policy options that was simulated. The value of benefits under each of the alternative policy options was then compared with the value under the current policy option, and the percentage change in benefits was calculated. Table 2 shows the results of these calculations for all individuals in the cohort of workers aged twenty-five to thirty-four in 1979. To limit the complexity of the analysis, only one cohort is shown. This cohort was chosen because these people would feel the maximum effect of each of the options simulated.

From a lifetime-benefits perspective, the distributional effects of the various options are quite different. The options that adjust the benefit formula (i.e., bend point adjustments) tend to cluster the benefit reductions, relative to current policy, below 15 percent. Under the price indexing of earnings options, benefit reductions for the majority would also be less than 15 percent. Under each of these options there is a clear modal group with narrowly distributed benefit reductions being spread across a wide range of the population. Under these options, almost everybody ends up in roughly the same boat, so to speak. The variations in the distributions that exist from the alternative formula adjustments stem from variations in work and earnings patterns in the simulations.

Under the scenario for raising both the normal retirement and early retirement ages, about 34 percent of the people had benefit reductions of less than 5 percent. In fact some people with long lives beyond age sixty-eight, who worked to normal retirement age under both simulations, would receive higher lifetime benefits under the higher-retirement-ages scenario. This occurs because their benefits would be calculated on the basis of a PIA formula whose bend points had been indexed three additional years. About 23 percent of the people at the upper end of the distribution would experience benefit reductions of 25 percent or more under this option, while 10 percent would lose benefits altogether. The wider distribution of benefit reductions from raising the retirement age compared with the distribution under the options for modifying the benefit computation, stems from later retirement age eligibility in combination with age at death. Even though average life expectancy increases over the simulation period, some people still die between the ages of sixty-two and sixty-five and sixty-five and sixty-eight. People who do not live to age sixty-five or who live only a few years into retirement would receive benefits for a shorter period under this option. Obviously, their lifetime benefits would be reduced significantly.

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[5] For a complete description of this analysis see Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: Employee Benefit Research Institute, 1982).

TABLE 2.—DISTRIBUTION OF RELATIVE CHANGE IN PRESENT VALUE OF LIFETIME SOCIAL SECURITY BENEFITS AT AGE 62 UNDER ALTERNATIVE POLICY SCENARIOS IN COMPARISON WITH BENEFITS UNDER CURRENT POLICY FOR PERSONS AGED 25 TO 34 IN 1979

[Relative reduction in the value of lifetime benefits compared with benefits under current policy]

Policy option	Percentage of persons in each category							Total [1]
	Less than 5	5 to 9.99	10 to 14.99	15 to 19.99	20 to 24.99	25 to 99.99	100	
Bend-point indexation by 75 percent of earnings for 16 years	2.1	26.7	69.8	0.8	0.3	0.3	0	100
Price index of bend points	1.7	14.0	62.3	22.0	0	0	0	100
Price indexation of wages indefinitely	3.5	64.8	25.7	4.8	0.6	0.5	0	100
Raising early and normal retirement ages 3 years	33.9	27.8	7.8	5.6	2.5	12.7	9.9	100
Raising normal retirement age 3 years and adjusting actuarial factors	7.0	7.0	12.3	48.6	19.2	4.4	1.5	100

[1] Totals may not add to 100 percent in all instances because of rounding.

Source: For a complete description of this analysis see Sylvester J. Schieber, Social Security: Perspectives on Preserving the System (Washington, D.C.: Employee Benefit Research Institute, 1982), p. 196.

The option that raises normal retirement age but maintains the current early retirement age would lead to somewhat larger benefit reductions on average than any of the other options. This occurs because people are expected to choose to retire at an age close to the retirement age under current policy, at the expense of the larger actuarial reductions in their benefits. If older workers were to extend their careers in the future, however, this phenomenon might be less extensive than the simulation suggests. The size of the baby-boom cohort and the prospects of the mass exodus of these people from the work force might result in significant wage growth among the members of this cohort as they begin to retire. To some extent, this phenomenon is captured in the simulation, but possibly not sufficiently. If the wages of this cohort were to rise appreciably as the group approached retirement, the labor-force participation of the elderly could be expected to rise and the Social Security benefit reductions would be less pronounced than the simulation results shown in table 2 suggest.

It is also important to remember that there are other sources of income that will help to mitigate the effects of modifications in Social Security. By the time any of the long-term options being seriously discussed is fully implemented, the portion of the elderly's population receiving pension and IRA annuities will be significantly higher than is currently the case. Figure 2 shows the estimated average disposal income for future cohorts of retirees from our simulations under three different Social Security policy scenarios in 1982 dollars. The top line in the figure represents estimated average disposable family income under current Social Security policy. The middle line shows the projected path of average income under the Social Security benefit formula modification that would slow bend-point growth to 75 percent of wages for a defined period. The bottom line shows the projected path if the formula were modified and half of Social Security benefits began to be treated as regular income. The difference between the current policy and the combined alternatives may be considered as an 8 percent reduction in income at age sixty-five by the year 2015. Another way of expressing the difference is to say that under current policy, average real disposable income is projected to rise by 1.9 times between 1985 and 2015, whereas it might go up only 1.8 times under the modified policy.

The combined effects of modifying the formula plus treating half of benefits as regular income would close at least 90 percent of the projected long-term deficit in the Social Security cash benefit program. This particular set of options has been chosen not to represent a preferred policy option, but rather to put the discussion in a proper context. Each of the other options considered would have distributional results somewhat different from those associated with this particular option, but most would not be significantly different in the aggregate.

OTHER CONSIDERATIONS

There are certain facets of the package submitted by the National Commission on Social Security Reform that warrant further consideration. The provisions for taxing benefits would introduce a "notch" such that in certain instances, an added dollar of non-Social Security income will result in significant reductions in disposable income. Such policy would appear to have inherent inequities. It is our understanding that subcommittee staff is aware of this problem and is devising a legislative package that includes a more equitable provision.

Finally, the proposal to subject contributions to cash or deferred arrangement (CODA) plans set up under S401(k) of the IRS code may be inconsistent with other general and FICA taxing policy. Given that there has been absolutely no analysis of the revenue effects of this proposal or its potential implications on the distribution of ultimate benefits such a policy may deserve additional scrutiny.

CONCLUSION

Our analysis suggests that the furture of the retirement income security system may not be so dismal as a narrow focus on Social Security's current financing projections would suggest. While no one can predict the future with great accuracy, some trends can be observed and their outcomes predicted. For example, American society is aging and it will continue to do so. In addition, pensions and private retirement savings are growing in importance as source of retirement income security and they will continue to do so in a favorable policy environment. Although the aging of society is bound to put extra stress on Social Security, the growth of pensions can help to relieve some of that burden.

If Social Security is to remain the cornerstone of our retirement system, it must adjust in the future to meet the changing needs of society. The uncertainty of the extent of changes in the economy, productivity, birthrates, life expectancy, and a host of other factors suggests that Congress should adopt a Social Security policy that allows some margin for error. In essence, this means that any policy changes Congress makes in the current environment should not promise more cash benefits for the future than we are sure we can provide. This is especially the case given the pending financing problems of the HI program. This raises the possibility that adjustments made today may have more drastic effects or provide greater program savings than future generations would accept. For example, if it is socially desirable to raise the level of real Social Security benefits in the future it can be accomplished through the legislative process at that time. The public would then have a much clearer understanding of the needs of the elderly population and the relative burden that Social Security financing will place on workers. One has to assume that future Congresses will be equipped to assess appropriate benefit and taxing provisions in their respective times. Policymakers then will be better able to judge the relative needs and capabilities of their society and economy than anyone can judge today.

Mr. **Morris**. Mr. Chairman, may I state one word just for 1 minute? These are my personal figures.

I contributed to the civil service retirement fund from 1923 until 1965, $6,600. I found out from the Civil Service Commission last fall how much they had paid me during my retirement years. They have paid me $242,000 for my $6,600. [Mr. Morris subsequently corrected this to $142,000 in benefits received.]

Mr. **Shannon**. Thank you very much.

Mr. Archer, do you have any questions?

Mr. **Archer**. Thank you, Mr. Chairman.

Mr. Morris, that really graphically portrays the problem that we have because some people have compared the system virtually to chain letters, and I am afraid that in some degree they are accurate. And you question whether a society can afford to make these sort of payments in the years ahead that have been made in the past.

I would like to ask Mr. Schieber. Assuming the maximum shortfall of Federal payments into the fund in a matching nature to those of the employee, which you mention as $4 to $5 billion, including interest, if I understood you correctly, and if I say something that is wrong, please correct me, has that been paid back in an amount in excess of the 50–50?

Let me put it to you this way: Assuming that the Federal Government has an obligation to match the employee's contribution on a one-for-one basis, as is true in social security, has an amount in excess of that one-to-one match been paid back into the fund equal to the $4 to $5 billion?

Mr. SCHIEBER. Again, referring to the pension facts book, the total employee contribution, since the beginning of the program to the end of 1980, would be $47.8 billion by the employees. The Government appropriations and agency contributions, not including interest on the trust funds, were $98.6 billion.

So in rough terms, the employer contributed about twice what the employees have between 1921 and 1980.

Mr. ARCHER. And is it correct that, on an annual basis now, the Federal Treasury is contributing roughly 4.5 times what each employee is contributing in order to make the benefits possible?

Mr. SCHIEBER. In 1980, again referring to the table, the employees contributed $3.7 billion. The Government appropriations, agency contributions, were $15.6 billion. So your figures are roughly correct.

Mr. ARCHER. So you would say, then, that the allegations that these extra contributions are merely a repayment of the employer's share that was not contributed early on, plus interest, are just not accurate. Is that a fair statement?

Mr. SCHIEBER. In terms of the contributions that are going into the system now, we are roughly meeting what the actuaries would call the normal cost, and, as I indicated earlier, we still lost ground between fiscal year 1980 and 1981 to the tune of $95 billion.

So we are not only paying massive amounts today; we are also storing up additional amounts that our children have to pay in the future.

Mr. ARCHER. Well, how would you explain the allegations of the previous witnesses?

Mr. SCHIEBER. I would not explain them. They can explain them.

Mr. ARCHER. Is there not some shred of justification for what they said?

Mr. SCHIEBER. Well, I think that they have some reason for being concerned about their pension plans.

Mr. ARCHER. No, that is not what I mean. I mean about the fact that the extra contributions out of the Treasury are merely a repayment of that which was not paid initially, plus interest.

Mr. SCHIEBER. I am not sure I understand your question. Are they justified——

Mr. **Archer**. I mean, I understand that they are concerned about being put into social security. I am well aware of that, and I do not blame them for that human reaction. But as far as the facts, because I hear advertisements on television and radio, et cetera, along these lines.

Is there any shred of justification for the allegation that the Federal retirement fund is healthy and that the Federal Government is not paying in more than a matching amount, that the extra moneys are merely the result of paying back contributions that were not made in earlier years, plus interest?

Mr. **Schieber**. OK. Under current financing law, the civil service system could continue to meet its obligations for at least 100 years into the future. That does not mean that the employer is exactly matching the employee contribution. The employer is doing much more than that.

I have done some calculations which showed that if the employer exactly matched the employee contribution, plus paid a reasonable rate of return on the existing trust fund, and we continue to meet the benefit obligations now in the pipeline, that the system would go belly up somewhere between 1993 and 1995.

Now without the additional infusions over and above matching contributions and paying interest on the trust fund, if we do not throw in additional moneys, that system is not solvent and there is no way we can get around that. But there are provisions in current law to continue to meet the benefit stream.

Mr. **Archer**. Well, obviously under the law we can make any system appear to be solvent, if we just permit it to take whatever is necessary out of the General Treasury as the need occurs. We could make social security solvent for the foreseeable future if we just said, "If you have a shortfall, just dip into the General Treasury and get whatever you need to make the payments." And then we could all go home and say everything is in good shape.

Mr. **Schieber**. Well, we still have to pay for those obligations.

Mr. **Archer**. Oh, we have to pay for that? If we borrowed the money, you mean we have to pay for it sometime? [Laughter.]

Mr. **Schieber**. Someone has to pay for the benefit stream. That is absolutely correct.

Mr. **Archer**. Well, I often think, at times, with what the Congress does, that if we borrow the money that it does not cost anybody anything.

Mr. **Schieber**. Either you collect taxes which takes away peoples' consumption power, or you borrow in the marketplace, which takes away from the capital market. So somehow the benefits have to be paid for unless you turn on the money machine.

Mr. **Archer**. So the real question is at any point in time, whether the productive sector is going to be willing and able to pay the cost. Is that what it really comes down to ultimately?

I appreciate your testimony and I think these figures that you have given us show very clearly that the previous moneys that were not paid initially by the Federal Government into the Federal retirement fund have been repaid with interest and an additional amount has also been repaid already, and that the insatiable demands that are going to occur in future years are going to grow and grow and grow.

And I hope that we can get the gentleman to come and testify before us that you have worked with and that the previous witnesses worked with, so we can hear his comments on this. I think the chairman was accurate when he said we just want to try to treat everybody as equitably as possible, and that is difficult.

But both of the systems, social security and the Federal retirement fund, are being subsidized heavily by the taxpayer and the subsidies, I suppose, you might be able to justify in some instances on social purposes, but if an individual is drawing out of both funds and has not paid in enough in either fund to justify the amount of the benefits on an actuarial basis, then the general taxpayer has to pick up the difference.

And the question then is, if you do it on one, maybe you can say that is justifiable, but if you have that plan on both of them, you have got to question whether the taxpayers can bear the burden over the long term.

Thank you very much.

Mr. SHANNON. Mr. Schieber, I think you have kind of answered this question, but let me just go over it again so that I understand it.

What percentage of the civil service retirement system unfunded liability comes from the Federal Government's not paying full appropriations?

Mr. SCHIEBER. Offhand, I could not tell you an exact percentage. In the 1977 actuary's report, there was a number that was the estimate of the magnitude of liabilities that had not been met on a normal cost basis. My recollection is it was about $5 billion, but that may be low. We can check that number and I can verify that for you.

Mr. SHANNON. I am wondering whether you could estimate for us what percentage of the unfunded liability comes from failure to pay those appropriations and what percentage comes from COLA and wage growth and other things.

Mr. SCHIEBER. A very small percentage comes from the lack of contributions in the early years. A very, very small percentage.

[The following information was subsequently received:]

If the Federal Government had matched contributions to CSRS throughout the early years of the system it would reduce the current unfunded liability by roughly 10 billion. According to the report filed by the enrolled actuary with Corgress in compliance with Public Law 95-595, the unfunded actuarial accrued liability at the end of fiscal year 1981 was $498.9 billion. The added $10 billion, had earlier contributions been made on a matching basis, would have reduced the unfunded liability by 2 percent.

A singular fixation on matching contributions, however, does not mean that the Federal Government as the employer has been negligent. Since the early 1960's the government appropriations and agency contributions, not including trust fund interest payments, have consistently exceeded employee contributions. For example in the fifteen years between 1961 and 1975 the government contribution exceeded employer contributions by $10.9 billion, more than offsetting any imbalance in the other direction during the first 35 years of the program. In fact over the first 60 years of the program, through 1980, the government contributed $98.6 billion to the trust fund and paid an added $35.7 billion in trust fund interest, while total employee contributions were $47.8 billion and net refunds were only $41.6 billion.

The element of the question that seeks to identify the various aspect of the CSRS that give rise to the unfunded obligation is more complex. I submit at least a partial answer. If more detailed is sought than I can provide at this time it might best be developed in conjunction with the next actuarial valuation of the program.

Today there are two methods used to estimate the unfunded liabilities of the CSRS. The first of these calculates an unfunded liability that is used for purposes of funding the CSRS. This is often referred to as the "static" unfunded liability and was estimated to be $184.9 billion at the end of fiscal 1981. This unfunded liability is calculated as the present value of all benefits payable to current employee, former employees, retirees and their survivors, minus the sum of (1) the present value of future employee and agency contributions; plus (2) the present value of scheduled amortization payments plus (3) the current fund balance. This valuation of benefits does not consider the value of benefits attributable to military service credited under CSRS. Furthmore, the economic assumptions on which the estimate is based assume that there will be no inflationary increases in salary or benefit levels in the future. Finally the estimate assumes that the trust fund will receive a 5 percent of return. This rate of return, while seeming innocuous enough, is extremely high given the zero inflation assumption for wages and benefits. Given the other assumptions, an interest rate assumption in the 1 to 2 percent rage would be more realistic.

The second estimate of unfunded liability is developed in accordance with the requirements and stipulations in Public Law 95-595. A major difference in this estimate is the use of "dynamic assumptions." The estimates for the end of fiscal 1981 were based on assumption that future annuity COLA increments would equal 5 percent per year, that salary increases would be 5.5 percent and that the trust fund would realize a 6 percent rate of return per year. The OMB/GAO instructions for developing this estimate specify an assumed future inflation rate of 5 percent. The CSRS unfunded liability at the end of fiscal year 1981 under this calculation method was $498.9 billion.

Most actuaries and economists would consider the unfunded liability estimated using the dynamic assumptions to be the most realistic. First it is not plausible to assume that there will be no future inflationary pressure on either wages or retirement annuity levels. Second, and possibly more important, the interest rate assumption should not exceed the inflation more than a percentage point or two. Historically the OPM actuaries estimate the CSRS trust fund rate of return has exceeded inflation by about 1 percent.

Mr. SHANNON. Do you think that those who say that that is the problem are wrong?

Mr. SCHIEBER. Between 1921 and 1955, which the contention in one of the testimonies this morning that it was 1920 to 1956—the first year of contributions was 1921 the table breaks the data out in 5-year intervals.

The Federal Government contributed one-quarter of $1 billion less than the employees. We are talking about total liabilities today of around $650 billion, of which there is a fund of roughly $100 billion.

Mr. SHANNON. So it is a miniscule part?

Mr. SCHIEBER. It is a very small part.

Mr. SHANNON. Mr. Savage, let me just ask you one or two questions about the 401(k) provisions. The basic concern that most people have raised about this is a tax policy concern, that when somebody has decided to defer receiving payments instead of taking it immediately, they still constructively receive that cash and that the tax law should tax them at that point.

How do you deal with that argument on the general tax principle?

Mr. SAVAGE. Well, it's not clear under general principles of receipt that the employee has constructively received something if he decides, contractually agrees, not to receive it in lieu of some kind of a retirement benefit. And fringe benefits of employees are just—there are countless instances in which you find that the employee has some choice over whether he is going to get cash or pension or cash or stock option, or what have you.

And 401(k) is just one instance in which an employee has that kind of choice. And all we are saying is that we think there are problems of equity in treating 401(k) differently than all other kinds of retirement programs, where the value of the benefit set aside for the employee may be subject to his control in various other ways, but which are not included in this proposal.

We think it is an equity issue. It may ultimately be——

Mr. SHANNON. You are talking about putting 401(k) payments on equal footing with what?

Mr. SAVAGE. Well, right now 401(k) contributions to a retirement trust are treated just like contributions to any other kind of qualified retirement plan. They are not included in the wage base, and we think that that is the way it should be until it is shown——

Mr. SHANNON. It is an elective payment, even though you have a choice of cash or deferred cash?

Mr. SAVAGE. Well, of course, if you accept the cash, then, of course, it will be included in the wage base, but these are not like voluntary employee contributions that he can withdraw at any time. These are contributions that are permanently set aside for retirement and you can find situations—many, many retirement plans in which the employee has no elective choice about how or whether the money goes in, but he can pull it out at any time. That gives him even more flexibility than a 401(k) plan, but nobody is suggesting that all retirement plans be included in the wage base. So I am just saying that this is one type of plan. There are many, many types of plans that give the same kind of or a different kind of flexibility that are not included in the proposal, and I think it is unfair and inequitable to treat that type of plan differently than all the others.

Mr. SHANNON. You go to some length in your testimony to state that participation in 401(k) does not reduce retirement income. That is a fact. But have you taken into account the fact that it could result in reductions in disability and survivor benefits?

Mr. SAVAGE. I have not seen any calculations specifically on the subject.

Mr. SHANNON. You have not made any calculations?

Mr. SAVAGE. No. But any amount that is deferred in a 401(k) plan is fully vested, so if the employee dies his beneficiary gets a lump sum amount equal to the entire value of that benefit.

Mr. SHANNON. But that doesn't necessarily correlate to what the disability or survivor's benefit would have been. You have not done any analysis of that?

Mr. SAVAGE. No.

Mr. SHANNON. Thank you very much, Mr. Savage.

Mr. Matsui?

Mr. MATSUI. Thank you, Mr. Chairman.

Mr. Schieber, you indicated that the unfunded portion of the employees fund is at this time $650 billion. Is that correct?

Mr. SCHIEBER. No. The total liability is somewhere in the area of $630 to $650 billion. The fund is now around $100 billion. So it is $650 minus $100, to get the unfunded liability of around $530 billion at the end of fiscal 1982, is a rough guess on my part.

Mr. ARCHER. Will the gentleman yield?

Mr. MATSUI. Yes.

Mr. ARCHER. Over what period of years is the unfunded liablity projected?

Mr. SCHIEBER. The calculation is done subject to Public Law 95-595, which requires all of the pension plans, Federal pension plans, to report. I would have to check that.

Mr. ARCHER. I thought it was probably only about 20 years.

Mr. SCHIEBER. I can check that.

[The following was subsequently received:]

The unfunded liability stated in the report submitted to the Congress in compliance with Public Law 95-595 is defined as the additional amount, which if deposited in the fund would be sufficient to fully finance the total cost of the retirement benefits for the current closed group of employees and annuitants. The calculation assumes new workers would not be admitted to the system. The unfunded liability represents the difference between the actual balance in the retirement fund and what the balance would be if each previous annual contributions had been equal to each prior year's accured liabilities to all current and former workers and annuitants participating in the system. It does not included the value of future liabilities that would accrue to current workers who would continue to acquire credits under the system, to the extent such accruals would exceed annual normal cost contributions.

Mr. ARCHER. But I think that ought to be put in the record. Thank you very much.

Mr. MATSUI. And you are saying in response to Mr. Shannon's question—and correct me if I am mistaken—that approximately $5 billion of that was due to the failure of Congress to appropriate the funds to match employee's contributions. Is that right?

Mr. SCHIEBER. During the first 35 years, if you want to be generous you can double that, but you are still only talking about 1 percent or 2 percent of the total liability.

Mr. MATSUI. Then, as of 1983, there is an $530 to $550 billion unfunded liability. In other words, if the system were to close now and no further general revenue or employees contributions would go into the system, then the obligation of the Federal Government to the current generation of employees and those who are currently retired would be $550 billion? Is that right?

Mr. SCHIEBER. If you wish to fully fund the system today, if you wish to close it and fully fund it today, you would have to make appropriations of roughly $530 billion to the fund.

Mr. MATSUI. The Federal employees are asserting that if there is no further infusion of money into their system the liabilities will increase. Now let's project 10 years from now under the current system with the current levels of employees, but not placing new hires in the social security system.

By 1993, do you have figures as to what that $530 billion would be in terms of the unfunded liability? Would it be less or greater?

Mr. SCHIEBER. It would probably be greater if you continue to provide full cost-of-living increases and you continue to have increasing salary adjustments for people that continue to be covered under that system. It would be higher, it is my guess.

Mr. KEITH. I believe that the Congressional Budget Office projected that within the next 3 or 4 years it would total $860 billion for the civil service retirement fund unfunded liability.

Mr. MATSUI. So in other words the unfunded liability will grow in the next 10 years by about $25 billion per year. So if we decided to make it a fully funded system by 1993, you are talking about having to infuse the system with $860 billion during this time. That is basically what we are saying, is that correct?

Mr. KEITH. You would probably amortize it over a period of years and it would be perhaps the interest plus a bit of principal instead of putting in the $860 billion.

Mr. MATSUI. Thank you.

Chairman PICKLE. The Chair had to be called out of the room for a minute and missed part of your testimony, but I appreciate you coming.

I wanted first to welcome Mr. Keith to our hearings. He and I served together for several years on the Commerce Committee and Mr. Keith in the meantime has gotten more national notoriety on the pension area than he had when he was a member of the Commerce Committee. But that is not to say that you bloomed late, Mr. Keith, but you are making points that are important for our Republic to listen to and to study, and we appreciate your contributions and your forthrightness in trying to help us address this problem.

Mr. Schieber, before I left a minute ago, the contention was made that if we coordinated Federal employees under social security that the trust fund of the CSRS in approximately 10 years would have insufficient funds or would go broke or be bankrupt. Have you responded to that specific question?

Mr. SCHIEBER. No.

Chairman PICKLE. Well, would you, sir?

Mr. SCHIEBER. If you coordinate the civil service retirement system with social security, then you would have to make some additional provisions in law depending upon how you did it to make sure that there would be adequate resources out into the future to make benefit payments on a monthly basis.

Chairman PICKLE. That would depend largely upon the type of plan?

Mr. SCHIEBER. It depends on what you do. There are proposals around that would cover many current Federal workers and the effect there would be more significant in a very short time frame than if you only bring in new hires, which is what the Commission proposed.

Chairman PICKLE. Now the contention was made earlier that the failure of the Federal Government to participate in their share of the funding for the contributions in the early earlier years, regardless of how far back you go, almost to the beginning, has resulted in much of the liability that we face now, the unfunded liability.

I would like for you to comment again on that for my own information. I was not here and perhaps you have answered it, but I want to ask you specifically is that a valid argument? Is this something we must or should consider?

Mr. SCHIEBER. If you go back and look at the period for which the numbers are reported, and the aggregation of the years, 1921 to 1928, is the only period when the Federal Government did not make contributions.

Chairman PICKLE. How much did they not make?

Mr. SCHIEBER. Well, the total employee contribution during the period was $142.7 billion and there were $21.9 billion in refunds.

Chairman PICKLE. Are you talking million or billion?

Mr. SCHIEBER. I am sorry. That is millions. So the total net employee contributions over the period was about $121 million.

Now if you accumulate that with interest up till today, we are talking about $1 billion, roughly. I can go back and calculate it for you.

Chairman PICKLE. $1 billion out of $500 billion of unfunded liability?

Mr. SCHIEBER. That is correct.

Now if you took the period 1921 through 1955, the net employee contributions were $3.65 billion. The net employer contribution was $3.40 billion. That does not include any interest payments. So we are talking about a difference over the first 35 years of roughly $250 million.

Chairman PICKLE. $250 million in all of that period of time?

Mr. SCHIEBER. Yes. Yes, sir.

Chairman PICKLE. Well, if you take both of those periods, how much reduction would it be in the unfunded liability if you could add that up and then subtract it?

Mr. SCHIEBER. If you were being very generous in terms of your interest accumulations, maybe on the order of $5 to $10 billion.

Chairman PICKLE. $5 or $10 billion out of——

Mr. SCHIEBER. $530 billion unfunded liabilities.

Mr. ARCHER. Will the gentleman yield?

Chairman PICKLE. Yes, I would yield.

Mr. ARCHER. Actually, you would be including an interest rate there that would be far in excess of the interest rate on government bonds.

Mr. SCHIEBER. That is correct.

Mr. ARCHER. And that is the only safe thing that these moneys could be put into.

Mr. SCHIEBER. I have not done those exact calculations, and I want to state an outside limit.

Mr. ARCHER. Because the interest rate on Government bonds during the period of time you are talking about was extremely low.

Mr. SCHIEBER. That is correct.

Mr. KEITH. The present value, Mr. Chairman, according to Ed Hustead, is $1 billion, one-hundredth of the present unfunded liabilities. The present values of those contributions, if they had been accumulated at interest, is closer to $1 billion than the $5 or $10 billion that Mr. Schieber was suggesting.

Mr. SCHIEBER. Well, again I am saying I am being very generous. In any event, it is a very small relative amount.

Chairman PICKLE. Would any of you like to comment on the assertion that has been made that actually Federal employees would be made stronger or have a better retirement system if they were coordinated under social security than if they were not?

Mr. KEITH. The Bartlett Commission and Mr. Bartlett is a member of our committee, Joe Bartlett, former Under Secretary of Commerce during, I believe, the Johnson years in a report that he wrote and, by the way, Dr. Schieber was the staff assistant in that and probably can speak better to it but he pointed out that the Federal employees would be much better because particularly the lower paid ones because of the socially weighted nature of the benefit formula.

Chairman PICKLE. Mr. Schieber, did you want to make a comment on that?

Mr. SCHIEBER. Well, social security benefits lower income people to a greater extent than it does high-income people, so the question is how does the Federal work force break down in terms of their salary distribution. I have some numbers that I generated on the basis of some analysis that was done when I was with the Universal Coverage study.

And in April 1978, for example, 28 percent of women employed by the Federal Government had salaries below $10,000 in comparison to only 7 percent of men. So women tend to have lower salaries in the Federal Government than men do. They also tend to be more itinerant. They tend to come and go, have higher turnover rates than men, and one of the nice things about social security coverage is that it offers portability, where the civil service retirement system does not.

Conversely, only 8 percent of federally employed women had Federal salaries about $20,000 at that point in time, but 31 percent of the men did. So the women again, if you look at the top end of the salaries, are clustering more at the bottom.

Similarly, if you look at minority groups, only 12.9 percent of the white employees employed by the Federal Government in 1978 had annual salaries below $10,000, but 19.4 percent of the minority groups did. In comparison, 11.6 percent of the minority groups had an annual salary of $20,000 or above, whereas 37.5 percent of the whites did.

So the redistributive element of social security would certainly benefit a large segment of the female and minority population that works for the Federal Government.

Chairman PICKLE. Well, thank you. I appreciate your statement and I would also hope you would give to our committee any study that you might have made in that particular area.

Mr. Archer?

Mr. ARCHER. Yes, Mr. Chairman. I wanted to thank Mr. Morris for coming and presenting his testimony. And while you were out of the room he stated that during the time of his work life he paid into the system $6,600, and the total that he has drawn out in retirement checks since 1965 is $242,000. I think that is a graphic example of some of the difficulty and problems, but I want to ask Mr. Morris, if I might, what was the maximum annual salary that you made during the time that you were actively working?

Mr. MORRIS. It was around $7,500.

Mr. ARCHER. $7,500?

Mr. MORRIS. That is right.

Mr. ARCHER. Because we were led to believe that only those people in the higher income categories were the ones who were in effect getting a benefit, a major benefit, out of the Federal Retirement program.

Mr. MORRIS. It was on account of my long service.

Mr. ARCHER. Well, of course, longevity does have something to do with it, and it should. It should have something to do with it. I thank you very much for your testimony.

Mr. MORRIS. Thank you.

Chairman PICKLE. Mr. Jacobs.

Mr. JACOBS. I want to welcome particularly our former colleague, Mr. Keith, to the committee. We are fellow canine fanciers and I was just wondering, Hastings, I know I have read articles and you have spoken to me, I think, in person before about the excessive Federal pensions.

I was just wondering about those who think their pensions are excessive. I would assume you are not the only one.

What method do all of you use to return the excessive part that you consider excessive?

Mr. KEITH. That is a good question. I attempted to give mine back to the Treasury, and I had hoped to orchestrate it a bit in order to attract some attention to this phenomenon because I realize that very few people do return to the Treasury excessive amounts of pay or pension or being undertaxed.

I could not get any interest in that project, so I have decided and have followed through in that to give the amount of my military pension, which is entirely figured already into the civil service pension, it is $974 a month now. It was $550. I turn that over to the Aspen Institute for about a year, and then, when we formed our committee, I have been turning it over to that committee.

And I might add that we have on that committee several Members of Congress and many other fellow retirees. In fact, the entire committee is made up of people from the Federal Government who are devoting their time and their money to this cause.

Mr. JACOBS. Do you mean the Treasury would not accept the money?

Mr. KEITH. Well, they accepted it all right, but I had hoped to be a little bit flambouyant and attract attention to the problem that was confronting me. To a large extent, it was an embarrassment of riches. I am not used to that kind of money and I just felt that I should make a little example of it.

Mr. JACOBS. I was just curious about that. I have a military or a VA pension from combat disability. I have never accepted a penny of it since the day I came to Congress in 1965 while serving in the Congress, and I also sent a portion of the congressional pay back every month to the U.S. Treasury, and they have never refused it from me.

Now some people have suggested from time to time that instead of doing that that I donate the money to some worthy charity or some political organization. I have always taken the position that any donations I make to charity should come from me and not from the U.S. Treasury if I believe I am not entitled to it. So I just thought I would say that for the record and pass that along to others who might want to consider it. Consider the possibility of brightening the corner where he or she might be.

Mr. KEITH. Unfortunately, you are one of very few in number.

Mr. JACOBS. But enough to prove it can be done.

Mr. KEITH. Yes. But if we relied on that kind of generosity to solve the problem, we would certainly fall flat on our face.

Mr. JACOBS. Well, the law should be changed, without doubt.

Mr. KEITH. Yes, that is what I am seeking.

Mr. JACOBS. But you remember that Adlai Stevenson talked about the young couple that wanted to get married and they got to the courthouse just a few minutes late and the judge said they would have to come back on the next Monday. This was a Friday. And the prospective bridegroom said, "Well, Judge, could you just say a few words to tide us over the weekend?"

It seems to me that individual contributions cannot hurt in the meantime, until the law is changed.

Mr. KEITH. I tried to do this back in the State legislature when I was serving there in the State senate. I did not take the travel pay and some other increments that were afforded to the members of the State senate, and nobody paid the least bit of attention. It would have been better if I had made some kind of example.

Mr. JACOBS. But I just wonder how much credit a fellow has to get for doing the right thing or to get him to do the right thing.

Mr. KEITH. Well, you are helping right now.

Mr. JACOBS. There is self satisfaction in doing the right thing, but, you know, as Thomas Moore said when Richard Rich said, "If I were a good teacher, who would know it?" Moore said, "you would, your students would, your friends would, God would." Not a bad public, that.

Mr. KEITH. No, but if we left it to God and our student friends to do something about this, we would not be successful. I appreciate your gesture and I wish that more people would do it.

Mr. JACOBS. I am glad we share a love of Great Danes. [Laughter.]

Chairman PICKLE. Mr. Matsui, did you have a question?

Mr. MATSUI. Yes, Mr. Chairman. I hate to take your time because I know that you would like to move along, but I would like to ask Mr. Schieber a series of questions as I want to be sure that I understand this funding issue properly.

The unfunded liability right now is $530 billion. In 10 years, Mr. Keith said that it will be $860 billion. And so are we saying that every time a new Federal employee goes into the work force and qualifies for retirement benefits we are increasing that deficit? Is that a correct statement?

Mr. SCHIEBER. That has certainly been the recent experience. We have been losing ground at a fairly rapid rate. Between 1980 and 1981, I think, the unfunded liability went up by 28.6 percent; it has gone up very substantially.

Mr. MATSUI. So you are saying that at least recent history has demonstrated that the deficit will increase with each new Federal employee coming in the system.

Mr. SCHIEBER. It has increased, that is correct. Now it is not just because of hiring new workers. It is also the effect of wage growth and inflation and so forth. You would begin to curtail that growth if you started to close the system or if you adjusted the system.

Mr. KEITH. Mr. Matsui, if you would turn to page 7 of my testimony, you will find where Ed Hustead has given us some figures as to how much would be saved if we restricted the Federal and military retirees to the same amount of cost of living adjustments that the people in the social security can get. If you established a maximum of $800 as the amount of pension which would be indexed, and no further indexing above that first $800, you would save, at a 5-percent rate of inflation, a tremendous amount of money in the first 8 years.

You would save, I believe $31.7 billion would be saved by 1990, and if you had the same cap of $800 that was going to be indexed, you would save $76.6 billion at a 10-percent rate of inflation. And it is the inflation and the cost of living adjustments that have caused all of this trouble. In fact, I believe they generate the inflation because they increase the purchasing power without an increase in productivity.

It would take, in order to have the private sector have pension plans like ours, they would have to make a deposit of $450 billion a year to match the benefits that we are getting. The Federal employees unions and retiree groups have said, what you should do is bring the private sector up to our level of pension. If you do, it would cost $450 billion a year, Mr. Chairman.

Of course, you would solve the retirement problem, excuse me, the unemployment problem, because everybody would be retiring at 55 and you would have plenty of jobs to go around. But our products would be priced out of world markets and you just could not afford to pay it.

Chairman PICKLE. Well, I thank you all and thank you for your testimony. Before you leave, let me ask you, I notice that we had scheduled testimony of Mr. John Macy, and I understand that he has not been well.

Did any of you give us a report? Is he doing all right?

Mr. KEITH. I do not know that he is doing all right, Mr. Chairman. He has not been able to see anybody other than members of the family. He had a massive coronary on Monday afternoon, just before we went over to talk or were going to go over to talk to the people in the military.

Chairman PICKLE. If you are talking with him or visiting with him, I wish you would give him my regards. He is one of the great Americans of our time and has been of great service to this Government at various times, and so we hope he does better. Convey our good wishes to him.

Mr. KEITH. Thank you.

Chairman PICKLE. Thank you all very much.

Our next panel will consist of Mr. L. J. Andolsek, also Mr. C. A. "Mack" McKinney, and Mr. John E. Cosgrove, Mr. Harvey W. Schmidt, and Mr. Robert M. Beers.

I want to identify each one of the individuals. Mr. L. J. Andolsek is president of the National Association of Retired Federal Employees. Mr. Andolsek has been a fixture around Washington almost since the cherry trees. He came here with Congressman Blotnik, I believe, and served in various offices and also as a member of the Civil Service Commission, and we are pleased to have you here, Mr. Andolsek.

Then, Mr. C. A. "Mack" McKinney is the executive director for government affairs of the Non-Commissioned Officers Association. Mr. McKinney.

Mr. John E. Cosgrove, is chairman of the board of directors of the Fund for Assuring an Independent Retirement. That is the FAIR Association group.

Then, Mr. Harvey W. Schmidt is chairman of the National Conference on Public Employee Retirement Systems, and then Mr.

Robert M. Beers is the congressional liaison officer of the American Foreign Service Association.

We will proceed with the testimony as you are seated there, if it is agreeable with you gentlemen. The first one we will recognize is Mr. Andolsek. Lud, would you proceed?

STATEMENT OF L. J. ANDOLSEK, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

Mr. ANDOLSEK. Thank you, Mr. Chairman. I am Lud Andolsek, president of the National Association of Retired Federal Employees, half a million dues-paying members who are or soon will be dependent——

Chairman PICKLE. Your microphone is either not on or you uncharacteristically are being quiet.

Mr. ANDOLSEK. Mr. Chairman, I am Lud Andolsek, president of the National Association of Retired Federal Employees, with half a million dues-paying members who are or soon will be dependent on the civil service retirement fund as a major source of their income.

The civil service retirement system was developed and enacted into law in 1920, some 15 years before the Social Security Act. The original Social Security Act purposely excluded the Federal work force from its coverage on the valid assumption that such workers were already adequately protected.

The two systems were developed with basic different intents, civil service as a prefunded staff retirement system for career workers, and social security as an income insurance or social adequacy plan. Over the years, social security has always been viewed as providing a basic floor of protection to be supplemented by other sources of income, while the civil service retirement system was designed to provide adequate retirement income for its work force.

For more than 45 years now, civil service retirement and social security have been maintained and operated totally independent of each other. Our association believes good public policy demands continuation of this historically sound policy. I am appearing before you today, Mr. Chairman, to voice our vigorous opposition to the Commission's proposal for the following reasons.

One, we are convinced that expanding the social security coverage to future Federal workers will not solve the financial problems of the social security system. Two, we are deeply and genuinely concerned that the proposal can only result in deterioration of the civil service retirement system. And, three, we believe extension of social security to new Federal workers will incur significant new cost to the Government.

The report of the National Commission indicates that short term revenue gain from 1984 through 1989 for coverage of new Federal workers and nonprofit employees will be an additional $20 billion. We have been told that $13 billion of this would be from the Federal new hires. We understand, however, that new actuarial data are being developed, and there is every reason to expect this figure will go down substantially.

We cannot be convinced that this extension of the coverage will have a favorable, long range effect as the Commission report states. It only stands to reason that today's new contributor becomes tomorrow's new liability to the system. Only 2 weeks ago an editorial in the Wall Street Journal acknowledged the undesirable short term appeal of including new Federal workers in social security, but then cautioned, and I quote,

> But step back and look down the road. All those people paying into the social security will eventually become all of those people taking out of social security, so the failure to bring benefits in line with the revenues will mean that social security's future unfunded liabilities of $6 trillion will increase by almost another trillion when the Federal workers are folded in.

Information developed by an independent actuary reveals that with no new employee contributions going into the civil service fund the assets of that fund, which have historically increased each year to the current level of approximately $96 billion, will begin an annual decline in about 8 years, and within 20 years those assets would be totally depleted.

Here again let me say we are fully cognizant of the National Commission's stated belief that along with social security coverage Federal new hires should have a supplemental retirement plan which would be part of the social security retirement system. Our organization contends that a fair and equitable supplemental retirement plan cannot and indeed should not be developed in the haste of a few short months for the sole purpose of providing a short term financial boost to social security.

Without continued participation of all Federal workers in a common civil service retirement system, that system stands open to greater political maneuvering than we have witnessed in the recent past. In addition, we believe this proposal is significant in that it will affect every American taxpayer by incurring new costs to the Government.

If this proposal is enacted, the Federal Government would be required to contribute between $4 and $7 billion to the social security system between 1984 and 1989 unless there is no supplemental retirement program within the Federal service for new workers. This will not be money that can be diverted from some other source. It would be new money which must be paid into the social security fund.

A statement from Elmer Staats, former Comptroller of the United States, is in my prepared testimony.

And what about the effects of tax revenue? An independent actuary has indicated that the gradual substitution of primary tax free social security income for that which is now taxable Federal annuity income would eventually result in a multibillion dollar erosion of Federal and State tax revenues. It is estimated that if a combined social security supplemental retirement plan were in effect last year, the combined Federal State tax revenues would have been lowered by at least $2 billion.

Mr. Chairman, I have attempted here to present to you and your committee the depth of our opposition to any plan to extend social security coverage to future employees of the Federal Government along with the primary reasons for this opposition. I respectfully request that our beliefs and our comments be given the full benefit of your fair and objective consideration before any changes are made in the name of political expediency and short term financial gains.

I am sorry I had to do this so fast. [Laughter.]

Mr. **Gephardt**. I appreciate your willingness to live with our time problem and we will get back with questions and maybe give you a little more time to expand on your thoughts. We appreciate your testimony.

[The prepared statement follows:]

STATEMENT OF L. J. ANDOLSEK, PRESIDENT, NATIONAL ASSOCIATION OF RETIRED FEDERAL EMPLOYEES

Mr. Chairman, I am L. J. Andolsek, President of the National Association of Retired Federal Employees. Our Association, commonly known as NARFE, currently has half-a-million dues paying members, all of whom are—or soon will be—dependent on the Civil Service Retirement Fund as the major source of their retirement income.

The Civil Service Retirement System (CSRS) was developed and enacted into law in 1920, some fifteen years before the Social Security Act. The original Social Security Act purposely excluded the Federal workforce from its coverage on the valid assumption that such workers were already adequately protected by the CSRS from financial destitution after retirement. The two systems were developed with different basic intents—CSR as a prefunded staff retirement system for career workers and Social Security as an income insurance or social adequacy plan. Over the years, the CSRS, like Social Security, has periodically expanded and adapted its benefit and funding mechanisms to more adequately meet changing financial situations and benefit needs of its contributors and their dependents. But for more than forty-five years now, CSRS and Social Security have been maintained and operated totally independent of each other. Our Association believes good public policy demands continuation of this historically sound policy of maintaining CSRS and Social Security as separate and independent programs.

The recently issued report of the National Commission on Social Security Reform recommends that Social Security coverage be extended on a mandatory basis as of January 1, 1984 to all newly hired civilian employees of the Federal Government. I am appearing before you today to voice NARFE's vigorous opposition to that proposal for several reasons:

(1) We are convinced that expanding Social Security coverage to future Federal workers will not solve the financial problems of the Social Security System;

(2) We are deeply and genuinely concerned that the proposal can only result in deterioration of the Civil Service Retirement System; and

(3) We believe extension of Social Security to new Federal workers will incur significant new costs to the Government.

The report of the National Commission on Social Security Reform indicates that on a short-term basis, from 1984 through 1989, coverage of new Federal workers will bring an additional $13 billion in revenues into the OASDI Program. We understand that new actuarial data is now being developed, and there is every reason to expect this will result in the short-term revenue gains from this particular proposal dropping considerably, actually falling more in the $8 to $10 billion dollar range.

While we recognize that helpful new revenue would be generated for the OASDI funds in the near future, we cannot be convinced that this expansion of coverage will have "a favorable long-range effect" as the Commission report states. On several occasions in the past, Social Security coverage has been expanded to new groups of workers, yet the extended coverage has never proven the answer to the program's financial problems.

It only stands to reason that today's new contributor becomes tomorrow's new liability to the system. We are all aware of the fact that the Commission's report indicates that "the additional OASDI taxes paid on behalf of the newly covered workers over the long run will exceed, on the average, the additional benefits which result from such employment . . . .". But even this statement in support of their proposal concludes that such is true only on the assumption "that the program is in long-range actuarial balance." That qualifying phrase does little to convince us that there will indeed be long, as well as short term benefit to the Social Security System. Since similar actuarial assumptions have not proven valid in the past, how much faith can we have in the current ones? In fact, just within the past two or three weeks since this report was released, we have heard serious, and seemingly justified questioning of the assumptions used.

Furthermore, we are told that today's average beneficiary stands to receive more in benefits that he or she paid in taxes by a five to one ratio. We recognize that this ratio will decrease in the years ahead, but no one is assuming that it will fall into an equal return of taxes paid in the foreseeable future, or revert to a ratio in which taxes paid exceed benefits received. Until this happens, it is only logical that additional participants in the system can only mean greater benefit payouts beyond contributions tomorrow. Mr. Chairman, I have heard many individuals give many reasons for Social Security's current fiscal difficulties, but I have not heard any one charge that too few participants is one of them.

On April 24, 1979, Robert P. Bynum, Deputy Commissioner of Social Security, testified in Congress:

"The notion . . . of bringing Federal employees into the Social Security system . . . to keep it from going broke . . . is just not factual . . . Bringing Federal civil servants under Social Security would not reduce Social Security costs, would not reduce the Social Security deficit, and would not slow planned future increases in the Social Security tax." When asked directly if the inclusion of public employees in Social Security would relieve Social Security's funding problems, Mr Bynum answered: "No, it would not."

We are aware that this statement has recently been challenged as being completely wrong, and that although Mr. Bynum was so informed, he never saw fit to correct it. Perhaps like us, Mr. Bynum was never convinced that his statement was in error. We have not yet seen convincing evidence.

Indeed, I would call attention to a much more recent statement from an acknowleged authority on this subject. In a letter to the Editor of The Wall Street Journal on January 3, 1983, Mr. Francis J. Crowley, Executive Director of the 1980-1981 National Commission on Social Security, advised, "If Government employees are brought under the system solely because of the additional income which will improve short term financing, a mistake will be made."

And only two weeks ago, on January 24, 1983, an editorial in The Wall Street Journal acknowledged the undeniable short term appeal of including new Federal workers in Social Security, but then cautioned:

"But step back and look down the road: all those people paying into Social Security will eventually become all those people taking out of Social Security. So the failure to bring benefits in line with the revenues will mean that Social Security's future unfunded liabilities of $6 trillion will increase by almost another trillion when Federal workers are folded in."

Even if Congress chooses to ignore the long-term financial implications of extending coverage to new Federal workers, it should not be able to close its eyes to the consequences such a move can have on other Government programs. In the Civil Service Retirement System alone, elimination or reduction of matching employee-employer contributions from future employees can have disastrous effects.

Information developed by an independent actuary reveals that with no new employee contributions going into the Civil Service Retirement Fund, the assets of that Fund which have historically increased each year, to the current level of approximately $96 billion, will begin an annual decline in about eight years, and within 20 years these assets would be totally depleted.

Here again, let me say we are fully cognizant of the National Commission's stated belief that, along with social security coverage, Federal new hires should have a "supplemental retirement plan . . . which would be part of the Civil Service Retirement System. . . . .". Our organization contends that a fair and equitable supplemental retirement plan cannot and indeed should not be developed in the haste of a few short months for the sole purpose of providing an as yet undetermined, short term financial boost to the OASDI. But no supplemental plan would require the same contribution rate as the current CSR plan.

We are currently unable to assess the full effects of a lower contribution rate being paid into the CSR Fund for new workers, but simple mathematics indicate it could not maintain the adequate and sound financing which even our severest critics are forced to admit our current system now enjoys. You cannot pay less for any product without the quality of that product depreciating, or the manufacturer of the product being forced to assume a loss. In this case, Civil Service Retirement benefits can be likened to the product, and the Civil Service Retirement Fund to the manufacturer.

In an apparent attempt to diffuse this legitimate concern of current Federal employes and retirees, the Commission report parenthetically states, ". . . the financing of their benefits over the long run will not be adversely affected." We find this remark gratuitous at best, and point out that there is no evidence of any kind presented to support this blithe assertion.

Without continued participation of all Federal workers in a common Civil Service Retirement System, that System stands open to greater political maneuvering than we have witnessed even in the recent past, and becomes completely useless as a means of recruiting and retaining an able and dedicated Federal workforce of career employees.

Mr. Chairman, we are all only too aware of the fear that has been generated among millions of this nation's elderly as a result of the financial difficulties of social security. Certainly these fears must be stilled with constructive action on behalf of that vitally important program. But is it fair to provide temporary balm to the fears of some at the expense of others?

Civil Service retirees are also fearful. Fearful that the retirement system to which they long and faithfully contributed a substantial portion of their working wages will now be allowed to deteriorate to a point where it is no longer of concern to the Congress or to enough individuals to protect the benefits of that system.

Congress can promise today that the Civil Service Retirement System will not be allowed to become a "second class" retirement program, but there will be a different Congress in eight years, or in twenty years, and who then will defend today's promise? Unfortunately, Mr. Chairman, just within the past five or six years, Civil Service workers and retirees have seen promises broken and their incomes and fringe benefits threatened and ravaged to the point that even as the Government's own, they are losing faith in the credibility of that Government.

We recognize within the Commission itself severe contradiction in determining why Federal employees should be brought under social security. This group also considered mandating coverage to state and local government employees, but rejected, the proposal for several stated reasons. Outlining their reasons for rejection, they include the statement, "Some members point out that many state and local governments already have adequate, well-financed retirement systems for their employees, so that they do not need OASDI-HI coverage." This point is footnoted with the information that a few state and local employees do not have any retirement protection—neither OASDI-HI, nor a public employee retirement plan.

We can only wonder why these same Commission members did not also recognize that Federal workers already have an adequate, well-financed retirement system, and now also HI coverage, and therefore did not need OASDI coverage any more than those in state and local government employment. And within the Federal service, they could not have found anyone, even a temporary employee, who was not given some retirement protection. We see no logical explanation, only different standards for different groups of workers.

Mr. Chairman, I have expressed our deep concern that the extension of social security coverage to new Federal workers will not solve the financing difficulties of social security, yet will seriously disrupt the financing of the Civil Service Retirement Fund, and futher destroy the Government's credibility as an employer.

In addition, we believe this proposal is significant in that it will affect every American taxpayer by incurring new costs to the Government. It is for this single reason that Congress has considered and rejected social security coverage for its own employees eight times in the past. The reason for the new cost is that the extension of social security coverage to new Federal workers means that the Treasury must come up with additional funds beyond its current obligations as an employer to meet new obligations to social security. More specifically, if this proposal is enacted, the Federal Governent will be required to contribute between $4 and $7 billion to the social security system between 1984 and 1989.

Unless there is no supplemental retirement program within the Federal service for new workers, this will not be money that can be diverted from some other source. It is new money which must be paid into social security so that it can be used to help pay out benefits to current social security recipients. And these are funds required in addition to those obligated under the Civil Service Retirement Fund.

In his book, The Coming Revolution in Social Security, published in 1981, A Haeworth Robertson, Chief Actuary of the Social Security Administration from 1975 to 1978, addresses the concept of bringing Federal workers into Social Security as a means of holding down the payroll tax rates. He contends that it is not a proper alternative, and asks the question, "But who pays the Social Security taxes for Federal employees?", and immediately responds, "It is the taxpayers of the nation." He then logically points out:

"Any diversion of persent employee contributions from the Federal Civil Service retirement plan to Social Security would have to be restored by added general revenue paid by the nation's taxpayers. "Finally, universal coverage would actually increase the tax burden because Civil Service retirement plan benefits can be reduced by some, but not all the benefits provided by Social Security."

By virtue of its authority, the National Commission on Social Security Reform was limited to looking only at the question of Social Security financing. It did not consider the impact of its proposal on total cost to the Government. If it had, it would have seen that the extension of coverage to the Federal workforce would substantially increase the immediate cost requirements of the U.S. Treasury.

Because Social Security is a pay-as-you-go system, a continual flow of employee-employer contributions must come into the system each month to enable it to cover benefits being disbursed. The need for this immediate flow of payroll tax monies to Social Security is especially true now when monthly receipts and disbursements are in such a tight squeeze. The Federal Government, as employer, therefore assumes a need for immediate outlays not required under the Civil Service Retirement System in which pre-funded benefits can be paid each month without increasing the cash flow requirements of the Government, as employer.

Former Comptroller General Elmer Staats addressed this point in a 1978 report to Congress in which he advised:

"It must also be recognized that Social Security coverage for all Federal workers will, in general, require an increase in the Government's immediate cash requirements . . . At present the annual receipts of the Government's funded systems exceed their current obligations to beneficiaries; the excess is accumulated in the trust funds. The 'cash assets' of the trust funds are converted to long-term debt (in effect Treasury borrows from the trust funds) thereby decreasing the Government's current cash demand. Social security benefits are not prefunded, but are paid from current contributions by covered employees and their employers. If all Federal employees were covered by the program, their and the Government's contributions would be used to make benefit payments. In short, there would be an increased flow of cash out of the Treasury."

And there can be other new costs to the taxpayers as well.

Were a supplemental plan for future employees developed, based on the experience of the Railroad Retirement System, Congress can reasonably expect the administrative costs of operating two major employee retirement programs to run somewhere in the range of two to four times what is now required for a single system. A conservative estimate of that figure would be $1 billion between 1984 and 1989.

And what of the effects on tax revenues? Our Association believes that a specific amount of income should be tax exempt for all retirees, regardless of the source of that income, but currently there is not equitable tax treatment of all retirement income. Under the current circumstances, an independent actuary has indicated that the gradual subsitution of primarily tax-free Social Security income for what is now taxable Federal annuity income will eventually result in a multibillion dollar erosion of Federal and state tax revenues. It is estimated that if Civil Service retirees had been receiving retirement income from a combined Social Security-supplemental retirement plan system last year, combined Federal and state tax revenues would have been lowered by at least $2 billion.

Mr. Chairman, I have attempted here to present to you and your Committee the depth of our opposition to any plan to extend Social Security coverage to future employees of the Federal Government, along with the primary reasons for this opposition. I respectfully request that our beliefs and our comments be given the full benefit of your fair and objective consideration before any changes are made in the name of political expediency and short term financial gains.

Thank you.

Mr. GEPHARDT. Mr. Beers.

STATEMENT OF ROBERT M. BEERS, CONGRESSIONAL LIAISON OFFICER, AMERICAN FOREIGN SERVICE ASSOCIATION

Mr. BEERS. Thank you, Mr. Chairman. My name is Robert Beers. I appreciate the opportunity to appear here today on behalf of the American Foreign Service Association, the organization which for the past 60 years has represented the interests of the men and women of the Foreign Service of the United States. I myself am retired from the Foreign Service.

Mr. Chairman, we wish to register our opposition to recommendation No. 4 of the National Commission on Social Security Reform, which proposes, in part, that "coverage under the OASDI program should be extended on a mandatory basis, as of January 1, 1984, to all newly hired civilian employees of the Federal Government."

We oppose this recommendation for two reasons.

First, the Foreign Service Retirement and Disability System, as presently structured, is a cornerstone of the Foreign Service personnel system. The men and women who are selected to join the Foreign Service commit themselves to a migratory and hazardous career which frequently entails considerable risk to health and to the stability of family relationships.

Indeed, in recognition of the extraordinary demands that Foreign Service life imposes upon its members, Congress has established a separate personnel and retirement system which is specifically tailored to meet the needs of the Service. Requiring that all new Foreign Service employees be covered under social security would, in our opinion, mark the beginning of the end of a retirement system which for the past 60 years has been a fundamental element in recruiting and retaining the high caliber professionals who to quote from section 104 of the Foreign Service Act of 1980 are charged with the responsibility of "representing the interests of the United States in relation to foreign countries and international organizations * * * "

Second, we fully endorse the need to meet the funding requirements of the social security trust fund as defined by the National Commission. Nonetheless, we respectfully suggest that the short-term gain to be realized in this regard from blanketing all new Federal employees under the program is totally disproportionate to the probable long-term cost.

The Commission has said that social security must realize approximately $170 billion in additional revenue by 1989. Diverting the retirement fund payments of all new civil employees, including those of the Foreign Service, from the present retirement system into the social security trust fund would realize some $12 billion, or about 7 percent of this total. Offsetting this short-term gain would be the Government's assumption of the long-term liability of underwriting the retirement annuities of those covered under the present system after the current trust fund balances have been exhausted. Some experts have calculated this cost as ultimately totaling as much as $185 billion.

In our view, Mr. Chairman, two separate issues are at stake here: One, restoring the social security trust fund to financial health; and, two, retaining the basic framework of the Foreign Service retirement system as an essential element in preserving the high professional standards which characterize those men and women who are charged with the responsibility of representing the U.S. interests abroad.

Accordingly, we respectfully urge that the proposal to include all new Federal employees under social security be placed on hold until the long-term impact on the Federal work force of dismantling the present retirement system can be adequately assessed. Such an assessment should be carried out through the appointment of a special commission comparable in stature, competence, and range of viewpoints to the National Commission on Social Security Reform.

As for the Foreign Service, in this era of high technology and exceedingly complex international relationships, we feel most strongly that our country simply cannot afford to settle for less than the very best where the staffing of the Service is concerned. In this regard, it would only seem to make good sense to evaluate the probable results of abandoning a retirement system which has served this objective so very well for so many years.

Thank you, Mr. Chairman.

Mr. GEPHARDT. Thank you very much.

Mr. McKinney?

STATEMENT OF C. A. "MACK" McKINNEY, USMC (Retired), EXECUTIVE DIRECTOR FOR GOVERNMENT AFFAIRS, NON COMMISSIONED OFFICERS ASSOCIATION

Mr. McKINNEY. Thank you very much, Mr. Chairman.

I am C. A. Mack McKinney, and a retired Marine Corps sergeant major, having served more than 30 years in the Marine Corps, and now representing the Non Commissioned Officers Association.

Since the military is already in the social security system, I rather feel like the mouse that went before the homeowner begging relief from the cat's paw simply because he did not like swiss cheese. But my association firmly believes that should Congress continue to gnaw away at their compensation and benefits, namely pay and retirement, more and more of our military professionals will opt for a civilian career.

The proposed OASDI increase and taxes on social security benefits, if enacted, once again strike at the heart of these career incentives. Not only have military personnel, particularly career service members, been subject to numerous adverse actions against their compensation and retirement programs—and I must add here more so than any Government employee group—but they are now targeted for more this year, a pay freeze, of course, which also takes into consideration our other Federal employees, and further deterioration of their retired pay.

Now we have had retention problems in the military since the advent of the All-Volunteer Force. In particular, it started around fiscal year 1975 and continued to a point where the Navy could not put its ships to sea because it did not have sufficient professional petty officers to do the job. The Chief of Staff of the Army characterized his service as being a hollow one simply because there were insufficient numbers of noncommissioned officers in the combat forces.

Now the Navy at the time was 20,000 petty officers short and although Congress did address some of the pay issues in 1980 and 1981, the Navy shortage rose to 22,000 and is now only down to 17,000. It is going to take a number of years to get us back to having qualified professionals in the military service because those we did have left in the late 1970's.

I have listed in my prepared statement most of these problems, which I hope you will take the time to read. I will not elaborate further on them here, but we do have a problem and it is a serious problem. And although these particular items that we discuss today in my statement may seem minimal, when you add them to the others that are tagged on to those by the other committees in Congress, they become significant in whether or not our military professionals want to stay in the service and put up with the contingencies of military life.

And we have certainly seen such back in the late 1970's. They did not want to put up with it and subsequently left in a great exodus which left the services in a position of questionable readiness. I urge this Congress to take a look at these problems before it makes a decision and perhaps exempt military personnel if these two provisions are enacted into law.

Thank you, Mr. Chairman. I stand ready for questions.

Mr. GEPHARDT. Thank you very much for your testimony.

[The prepared statement follows:]

STATEMENT OF SGT. MAJ. C. A. "MACK" MCKINNEY, USMC (RET.), EXECUTIVE DIRECTOR FOR GOVERNMENT AFFAIRS, NON COMMISSIONED OFFICER ASSOCIATION OF THE USA

Mr. Chairman, I am C. A. "Mack" McKinney, Sergeant Major USMC (Ret.), currently serving as the Executive Director for Government Affairs, Non Commissioned Officers Association of the USA (NCOA).

NCOA is a military and veterans organization with more than 150,000 noncommissioned and petty officers who are serving or have served in the U.S. Armed Forces and more than 100,000 associate members of all grades who are now veterans—joined together under the Association's banner. More than 80 percent of the initial group are currently serving on active duty or retired. It is this group and its comrades-in-arms that I represent today in my appearance before this distinguished panel.

BACKGROUND DATA

Beginning in 1946 "gratuitous" benefits were paid from the Social Security Trust Fund to survivors of members of the Armed Forces. During the Korean conflict, particularly, these benefits caused a drain on the fund. Due to the economics of the situation and because at the time military personnel had no benefit programs for their survivors, it was decided that servicemembers would be integrated into the social security system.

Of lesser significance was the uniqueness of the (then and now) military retirement program.

Only one of every 10-to-12 persons joining the military serve in uniform long enough to become eligible for military retired pay.

The military retirement system is not a "vested" program; therefore, eligibility for receipt of retired pay comes only after serving a minimum of 20 years on active duty. (All other government and quasi-government employees, and foreign nationals employed by the U.S. including those in non-appropriated fund activities, have a vested interested in their retirement program.)

The enrollment of military personnel in the Social Security system has gained greater significance in recent years because of the Non-Vested Retirement System for military personnel. Most important it recognizes that subsequent to military service most will again come under social security upon returning to or first engaging in civilian employment.

Servicemembers began contributing to social security on Jan. 1, 1957. The FICA tax then was 2.25 percent of wages earned up to a maximum of $4,200. However, the major portion of uniformed personnel—the enlisted corps—did not meet the maximum taxable earnings base and never have to this date. In 1959, the tax increased to 2.5 percent, to 3 percent in 1960, and to 3.125 percent in 1962.

The new FICA taxes came on the heels of a new income tax imposed on military pay just two years earlier. Despite the increased burden on military personnel between 1955 through 1962, their pay remained almost constant from 1955 through 1962. An adjustment was made in 1958 to accommodate the creation of two new super-grades in the officer and enlisted ranks. However, reductions were made in the pay of all junior and middle grade enlisted and officer ranks at higher-seniority levels.

What is so unique, here, is that during the years that Congress imposed the two tariffs on servicemembers, their pay was not significantly increased to offset the added assessments. Further, the pay of all but junior officers and enlisted personnel was undergoing the process of compression. Over a period of two generations-plus, the pay of junior personnel gradually increased at a higher percentage rate than that of their seniors. For example, the pre-1942 pay of a senior Master Sergeant/Chief Petty Officer, now pay grade E–7, was 7.5 times higher than that of a Private/Seamen, now pay grade E–1. By 1957, the year military personnel were brought into the Social Security program, the ratio had dropped to 4.3. Today, under current pay levels, it stands at 3.1.

The most devastating act of compression came in 1972 with the advent of the All-Volunteer Force. Congress was convinced that recruiting new personnel into the armed forces was of greater importance to the Nation's defenses than retaining its qualified, skilled, and experienced noncommissioned officers, petty officers, and commissioned officers.

E–1 pay was increased 100.4 percent, E–2 pay 115 percent, and E–3 pay 84.4 percent. All senior enlisted pay grades received a token increase of less than 7.3 percent, with the exception of grade E–4 which was raised 17 percent. Eleven years later, even with a special adjustment of pay in 1981 for senior enlisted personnel, pay increases for E–7s thru E–9s continued to lag from 142 percent to 209 percent behind those for E–1s thru E–3s.

This pay compression, coupled with many adverse congressional actions that "gnawed away" at the value of their pay and benefits, caused a mass exodus of career military personnel in the late 1970s. By 1980, the Navy—short 20,000 experienced petty officers—could not get its ships to sea. The Army was characterized as "hollow" by its Chief of Staff because it had a shortage of thousands of qualified noncommissioned officers in the combat forces.

Congress rushed to make amends in 1980 and 1981. Retention rates climbed, but there is no way for the military to replace skilled personnel in two or three short years. The senior NCOs and Petty Officers that left in the 1976–80 period are lost forever. The only hope is that Congress will treat the current NCO Corps with fairness and equity so that they will stay and serve. If it doesn't, our Armed Forces will be in far worse shape than in 1979–80.

CURRENT

Now comes 1983, one year after a military/federal pay cap—the fourth in less than 10 years.

President Reagan has recommended a pay freeze for the military/federal work force in 1983 and is urging Congress to adopt certain recommendations of the National Commission on Social Security Reform.

Two of these recommendations are of concern to NCOA and its members:

Move the 1985 OASDI tax schedule increase to 1984.

Tax one half of the social security benefits of recipients whose adjusted gross incomes are at least $20,000 if single or $25,000 if married.

OASDI TAX SCHEDULE

The President's supposedly unrelated recommendations would be ludicrous if it were not for the seriousness of the matter. The many promises he made publicly in consideration of his military personnel—and he is the Commander-in-Chief—have been replaced by successive dips into the pocketbooks of our servicemembers. Now he proposes a further devaluation of their purchasing power by actually decreasing take home pay. Of the more than a dozen separate federal pay systems, none but the military will suffer a negative cash flow if the 1985 increase is moved to 1984. Accordingly, NCOA believes active military personnel should be exempt from payment of these accelerated taxes.

TAXING BENEFITS

The most important career-incentive for servicemembers is the military retirement system. The receipt of military retired pay is considered the cumulation of 20 or more years of active service leading to reduced compensation that is provided not only for services rendered but for services performed. Congress has recognized that the receipt of retired pay is restitution for the low pay and contingencies of military life experienced over a 20 year or longer period. Nevertheless, there have been no fewer than 20 adverse actions affecting military retired pay since 1972, including major changes last year. As noted earlier in this statement, servicemembers do not have a vested interest in a retirement system. For example, a regular enlisted member may serve honorably for 19 years, 11 months, and 29 days and, if not permitted to serve one more day, receives no monetary reward for those many years in uniform.

The Federal Courts, on the other hand, have recognized military retired pay as "reduced pay for reduced services." The retired military member remains in the service, retains his or her grade, is subject to recall and disciplinary action, and is faced with any number of restrictions that may preclude receipt of all or part of the member's retired pay.

Additionally, retired military personnel enrolled in the Uniformed Services Survivors Benefit Plan are well aware that their survivors' benefits, under this program, are "offset" by an amount determined by the Department of Defense as attributable to the servicemember's participation in the social security program while in the military. This is the only federally sponsored survivors benefits program that has a social security offset.

For yet another group of military retirees, retired pay is subject to a "social security offset" at age 62.

There are many other factors that make the military retirement system unique within the retired community. Its benefits, although termed "generous" by many, aren't easy to come by. If they were, the services would be able to close many recruiting stations, spend little if anything on advertising and bonuses, reduce its training budget to a minute level, and not have to worry about retaining experienced personnel to maintain adequate readiness.

Unlike the civilian sector, almost everyone must begin a service career at the lowest level of enlisted or officer grades. For many servicemembers social security taxable earnings are but a small fraction of their total lifetime wages. For a young 18 year old recruit who eventually applies for social security benefits at age 65, the first 12 years in the military will not have an effect on his benefits. Only to the military retiree are those benefits representative of a significant part of his total retirement income.

With these thoughts in mind and because of the extensive number of adverse changes made in computing the retired pay of servicemembers over the past decade, NCOA believes that taxation or partial taxation of social security benefits is not justifiable for retired military personnel.

SUMMARY

There is no other known group of government employees, other than those at the executive level that has suffered pay compression as did the career enlisted and officer grades in the military services.

There is no other known group in government that has had more adverse fiscal actions levied against compensation than that of career enlisted servicemembers in grades E-5 through E-9.

There is no other known group within the federal government's work force that has had more adverse changes directed by Congress affecting its receipt of retired pay and benefits than that of military personnel.

And, there is no other group in this category that is denied compensation when "RIFed" from federal employment (after performing a requisite number of years on the government payroll) other than that of regular enlisted personnel in the armed forces.

NCOA believes that the inclusion of active duty and retired servicemembers in the applicable reform addressed in this statement would have a detrimental effect on retaining qualified and skilled personnel in the armed forces.

Congress may resort to a draft to bring young men and women into military service but there is yet no known way it can induct people who are skilled, trained, military-wise, and ready-to-go as qualified and capable leaders. These people are made, not born.

NCOA urges Congress to give more attention to these recommendations than that which was offered by the President and the NCSSR. It is the Association's firm conviction that adopting the reforms noted herein will cost the United States much more in the long run than a "quick-fix" for the social security system.

Mr. **Gephardt**. Mr. Cosgrove.

STATEMENT OF JOHN E. COSGROVE, CHAIRMAN, BOARD OF DIRECTORS, FUND FOR ASSURING AN INDEPENDENT RETIREMENT

Mr. **Cosgrove**. Thank you, Mr. Chairman, members of the committee. You have my prepared statement. I would like to give a shorter oral statement for the benefit of time, but I would first ask if the members would correct one typographical error in the submitted statement, the full statement. On page 2, in the sixth paragraph, there is a reference to $4 billion in the third line. That should read $12 billion.

Mr. **Gephardt**. That will be corrected.

Mr. **Cosgrove**. Thank you, Mr. Chairman, and I would hope that my full statement and some charts and additional information we might submit could be included.

Mr. **Gephardt**. Without objection, that is ordered, and everyone's statement as submitted in writing will be made part of the record.

Mr. **Cosgrove**. We have, Mr. Chairman, before I make comments on the substantive issue, which is of such great concern to us, a peculiar situation in that the executive director of the National Commission on Social Security Reform, Mr. Myers, on January 31 provided a memorandum which I am sure many of you have seen, which controverts some of the basic premises that we have contended for our coalition.

And with your concurrence, I would like to also include the letter we are addressing now to Chairman Rostenkowski answering some of the premises that Mr. Myers asserts to be incorrect.

Mr. **Gephardt**. Without objection, it will be made part of the record.

[The information referred to follows:]

Fund for Assuring an Independent Retirement,
Washington, D.C., February 4, 1983.

Hon. Dan Rostenkowski,
Chairman, House Committee on Ways and Means, Longworth Building, Washington, D.C.

Dear Mr. Chairman: We, the undersigned, as representatives of all active and retired federal and postal employees respectfully submit for the record the following information. We feel testimony submitted by Mr. Robert Myers, Executive Director of the National Commission on Social Security Reform, needs clarification.

In a memorandum from Mr. Myers, dated January 31, 1983, he states the present Civil Service Retirement System will not go bankrupt since new entrants would contribute to Social Security and to a supplemental plan which would be part of the Civil Service Retirements system.

(1) No supplemental program has been developed.

A broad outline [illegible] supplemental program for new federal and postal employees was presented to [illegible] committee by Mr. Myers on February 2, 1983. Mr. Myers did not submit any documentation such as tables and cost estimates which would need to be supplied by the Office of Personnel Management.

He does however, suggest that new employees contributing to both a supplemental program and Social Security pay the same amount as present employees. Assuming the National Commission's recommendations for social security tax increases are approved, that amount for present employees will be 7 percent into Civil Service Retirement and 1.35 percent on the maximum covered wage (now $35,700) for Medicare coverage at age 65. This is a total of 8.35 percent in 1984.

Mr. Myers then proposes to have new employees pay 7 percent (the tax increase for social security in 1984 again assuming the Commission's recommendations are approved) up to the maximum coverage wage into Social Security with the remaining 1.35 percent going into Civil Service Retirement. A matching government contribution of 1.35 percent brings the total contribution to CSRS of 2.70 percent—well below the present employee/employer contribution of 14 percent.

Under the evaluation formula currently in the retirement law, the unfunded liability is increased if you reduce employee and agency contributions. This would increase the proportion cost that would have to be met by the employer, the federal government.

If we understand Mr. Myers's formula, the recomputation of CSRS benefits at age 65 would be reduced from the present 56.25 percent to 28.6 percent. In many cases Social Security benefits would not make up the difference at age 65 because of the tilt in Social Security benefits, the maximum salary limitation in Social Security, and the amount of a person's high three average government salary. Social Security benefits would not make up the difference particularly for people whose salaries are above the average.

The only specific legislative proposal that has been developed which forces new federal and postal employees into Social Security and establishes a supplemental plan is S. 2905, introduced in the 97th Congress by Senator Ted Stevens of Alaska.

Under 2905, the supplemental plan would not be a part of CSRS. None of its revenues would go into the CSRS fund. New entrants would be cut off and CSRS would be closed out over a period of years. The existing unfunded liability would be amortized over a forty year period at a cost to the taxpayers of nearly $550 billion (assuming a modest rate of inflation of 5.5 percent).

(2) Our assertion that Social Security coverage of newly-hired federal and postal employees would cost the Social Security system more over the long run as today's contributors become tomorrow's liabilities is correct.

This is based on a table published on page 83 of a Committee print of the Subcommittee on Civil Service, Post Office, and General Services. Committee on Governmental Affairs, United States Senate, 97th Congress, 2nd Session. The Committee print is entitled "Civil Service Pension Reform Act," and is dated December, 1982 (see attached).

The cited table shows that before the end of the long-range period (1983 to 2056), the increased Social Security benefits being paid out annually would exceed the increased Social Security revenues by $7.2 billion. The net budget cost would be $201.1 billion. The unfavorable financial position then deteriorates rapidly.

Referring to the proposal for mandatory Social Security coverage for newly-hired federal and postal employees, the National Commission of Social Security Reform states on pages 2-7, 2-8, "The additional OASDI taxes paid on behalf of the newly-covered workers over the long run will exceed, on the average, the additional benefits which result from such employment, *assuming that the program is in a long-range actuarial balance.*" (*supplied*)

The National Commission reports that the Social Security System is not in a long-range actuarial balance, and that even if all the recommendations of the compromise proposal were adopted, the program would still be out of balance by a shortage of .58 percent of total covered payroll for the 75-year long-range period.

Mr. Myers states that the long-range savings to the Social Security program would be about .3 percent of taxable payroll. This .3 percent figure is the same as the savings the Commission attributes to bringing in new federal and postal employees *plus* all employees of non-profit organizations.

(3) Federal and postal employee organizations have not asserted that new hires will have only Social Security benefits.

One might assume that some type of supplementary program would be established but what kind? At this time, it is strictly a "pig-in-a-poke." Employees have no reason to expect it would be fair, equitable, or even adequate. Their fears have been heightened by the more than 20 separate reductions in present or future income enacted by the 97th Congress, and more recently by the assault on their retirement system in the 1984 budget proposals from the Reagan Administration.

The following comments apply to Mr. Myers' statements about Civil Service Retirement financing:

1. CSRS was never intended to be financed by an equal sharing of costs between employee and employer. From the beginning in 1920, employees were to pay a fixed percentage of pay and the employer was to pay whatever additional amount was needed to pay the benefits promised by the system.

2. The unfunded liability did not result from the employer's failure to match employee deductions, but rather from the failure to fund retirement liabilities as they were created.

3. Mr. Myers agrees with FAIR that the Civil Service Retirement system is soundly and adequately financed.

4. The present financing method, written into law in 1969, did not create any additional liability or responsibility for the government as the employer. It simply prescribed the mechanics by which the employer would meet its recognized responsibility to pay whatever the cost of benefits that were not met by the employee retirement deductions.

5. There are enough estimates of the cost of CSRS using dynamic assumptions that you can just about pick one to serve any immediate objective. For example, the cost expressed as a percentage of payroll can vary, depending on the assumptions you select, anywhere from the high of 40 percent cited by Mr. Myers to:

(a) 31.23 percent if you use the Social Security 1981 II-B assumptions, or

(b) a low of 27 percent if you use the assumptions used in 1977 by approximately 650 of the "Fortune 1000" companies and 350 additional large companies (see attached).

The Fund for Assuring an Independent Retirement, as a representative coalition of all active and retired federal and postal employees, does not want to engage the Committee in a continued exchange of memoranda. However, because we and the people we represent view this issue very seriously, we feel the Committee should be presented with factual and documented information. We, therefore, respectfully submit this report in reply to the information provided to the Committee by Mr. Robert Myers.

Sincerely,

John E. Cosgrove, Chairman, FAIR Coalition; Vincent Sombrotto, President, National Association of Letter Carriers; Moe Biller, President, American Postal Workers Union; John Sturdivant, Executive Vice President, American Federation of Government Employees; L. J. Andolsek, President, National Association of Retired Federal Employees; Vincent Connery, President, National Treasury Employees Union; Maurice J. Twomey, Vice President, National Association of Postal Supervisors; Wilbur Wood, President, National Rural Letter Carriers Association; Joseph Gondola, President, National Association of Postmasters; R. Fain Hambright, President, National League of Postmasters; Robert M. Beers, Executive Director, American Foreign Service Association; George E. Auman, Vice President, Federal Executive and Professional Association; David Gusky, Legislative Director, National Federation of Federal Employees; Walter W. John, Executive Director, Organization of Professional Employees, Department of Agriculture; Sandra Sue Adams-Choate, Washington Consultant, National Association of ASCS County Office Employees; Charles McDougall, Epsilon Sigma Phi; Eugene Boemer, Executive Vice President, Graphic Arts International Union; Rodney A. Bower, President, International Federation Professional and Technical Engineers; John J. Sweeney, President, Service Employees International Union; Edward L. Huie, Congressional Liaison, National Association of Air Traffic Specialists; Gary Eads, President, Professional Air Traffic Controllers Organization MEBA; Sol Fishko, President, International Printing & Graphic Communications Union; Al Lake, Assistant to the President, International Union of Operating Engineers; Edward L. Menning, Executive Vice President, National Association of Federal Veterinarians; Roy Mercer, Secretary-Treasurer, Military Sea Transport Union SIU; and Lynne Revo-Cohen, Congressional Liaison, Federally Employed Women.

Enclosures.

Mr. COSGROVE. The Fund for Assuring an Independent Retirement appreciates the opportunity to testify on the financing problems of the social security system. I am John Cosgrove, the chairman of the board of directors up there.

The 25 national organizations of public employees and annuitants in the FAIR coalition join in the belief that the social security system must be preserved and adequately financed. We do not believe this can be done by legislating mandatory coverage of public employees.

It is widely recognized that truly universal coverage is not likely to occur, if only because of constitutional questions about the coverage of State and local government employees. Accordingly, the proposals, including that of the National Commission on Social Security Reform, comes down to the question of whether Federal and postal employees hired after January 1, 1984, should be required to be covered by the social security system.

We oppose this proposition because it is not in the public interest or in the interest of the employees to be affected. Simply moving the contribution of Federal and postal employees from the civil service retirement system to the social security system would realize no additional revenues for the Government.

If there are no new entrants to the civil service retirement system and the present financing is continued, the civil service retirement system, which is now at the level of $96 billion in assets, will be reduced to zero in 20 years. If the present benefit levels were to be retained, additional revenues of at least $185 billion would be needed to maintain the system with the minimum assumptions applying.

The Social Security Administration has estimated that in 1985 additional revenues for extending social security to newly hired employees would be $0.7 billion. The problem here is very much one that the Government has failed to meet its liabilities in this whole system, which is based from the beginning in 1920 on the assumption of a given level 7 percent now, plus 1.3 for medicare, a given level of employee contribution, the balance of the requirements to be met by the Federal Government. That is the basic formula for the system.

We think the better answer to this would be to decrease unemployment. If you did that in 1985, decrease it by 1 percent, you would realize for the social security system, $12.4 billion. In any case, of the $192 billion estimated by the Commission as necessary to keep the system solvent in 1984 to 1989, of this, only $12 billion could come from mandatory coverage. No more could be realized from this.

A better proposal would be to require, we think, employers to pay social security taxes on total wages and salaries, not just the first $35,700 per employee, which is what is proposed. This would realize $29 billion more than the other alternative.

The second objection we have, is that this is fundamentally, we think, unfair to the Federal employee who has this employee-employer relationship, as a labor standard, which is the provision of the civil service retirement system. It is workable. It is equitable. We think it is one that ought to be maintained separate from the social security system, with all of its difficulties.

The supplement to which reference is made, the alleged supplement, is one that presumably would be devised at some time by someone, some place, somehow. We have not seen anything about it at all. We submit that it could not be worked out in this calendar year, if indeed it could ever be worked out.

We submit that the present system should be maintained as it is. Thank you.

Mr. **Gephardt**. Thank you very much for your statement.

[The prepared statement follows:]

STATEMENT OF FUND FOR ASSURING AN INDEPENDENT RETIREMENT (FAIR)

FAIR, the Fund for Assuring an Independent Retirement, appreciates this opportunity to testify before this Subcommittee on the financing problems of the social security system.

I am John E. Cosgrove, Chairman of the Board of Directors of FAIR. The twenty-five national-organizations (list attached) which compose our coalition, representing a majority of federal and postal employees and annuitant, have as a top priority protection of the Civil Service Retirement System, as an intergral part of the labor standards for federal/postal employees.

We are especially concerned with the proposals, including that of the National Commission on Social Security Reform, that public employees, specifically federal and postal employees hired on or after January 1, 1984, be mandatorily covered under the Social Security system.

First of all, we support, as do most Americans, the Social Security system. We believe that the short-term, cash flow problems that it is encountering can be solved by a variety of means available to the Congress. These might include use of general revenues, continuing interfund borrowing, taxing the employer's share based on total payroll, accelerating already enacted tax increases, or any of a number of other steps.

We are opposed to coverage of state and local public employees, on a mandatory basis, recognizing that there are constitutional questions involved and, so, truly "universal" coverage is unlikely. Certainly, state and local retirement systems which include coverage under the Social Security system should not be allowed to terminate, after they were initiated at the request of the employer government and the employees affected, solely on the unilateral action of the employer government unit.

Since truly universal Social Security coverage, on a mandatory basis will not likely occur, the question becomes one of whether federal and postal employees should be required to be covered or whether new employees should continue to rely on the Civil Service Retirement System, which has served so well for 62 years.

In our considered judgement mandatory coverage of federal and postal employees would not be in the public interest or the interest of new workers proposed to be so covered or of present employees or annuitants.

The public interest is not served by adding additional workers to a Social Security system facing long-range financial problems. To take 7 percent, or any other percent, of the pay of federal and postal employees which they would otherwise pay into the Civil Service Retirement System, plus a like amount from agency matching contributions, and direct these amounts into the Social Security system would not produce any new revenues.

If there are no new entrants to the CSRS, and if present financing is continued, the balance in the CSR Fund, which is now $96 billion, will be reduced to zero in about 20 years. It will then be necessary to find additional revenues from some source—presumably general revenues—in order to pay the benefits promised to present employees and annuitants. The additional revenues needed will be at least $185 billion, increased to as much as $550 billion if inflation continues at an average of 5.5 percent a year.

This is why, in 1977, the deputy commissioner of Social Security testified before Congress that bringing public employees under Social Security would not solve Social Security financial problems or slow further increases in the Social Security tax.

The Social Security Administration has estimated that in 1985 additional revenues that could derive from extending Social Security to newly hired federal employees would be $0.7 billion (over ten years less than $12 billion). This compares with the additional Social Security revenues of $12.4 billion that could be realized, that year, from a 1 percent decrease in unemployment.

Simply reducing unemployment by one percentage point each year for the next three years would raise 556 percent more revenue for Social Security during the same period than would covering newly hired federal workers. To gain the $192 billion estimated as necessary for 1984-89, by the National Commission on Social Security Reform, to keep Social Security solvent, it is estimated that $12 billion could come from mandatory coverage of new federal/postal hires. Alternatively, if employers were required to pay Social Security taxes on total wages and salaries—not just the first $35,700 per employee—Social Security would realize $41 billion in the same time period, a greater revenue by $29 billion.

In sum, it is contrary to the public interest to mandate coverage of federal and postal workers under the Social Security system, since it would increase, the system's long-range burdens and is the least fruitful alternative available to strengthen, as we all want, the Social Security system.

Our second objection to the proposed mandate is on the grounds of its unfairness. While reportedly some claim that the Civil Service Retirement System is on a shaky financial basis, the facts are otherwise. Like the state of Texas or the city of Chicago, we know that the U.S. Government will continue to exist. Accordingly, unlike private sector retirement programs, there is not the compelling necessity for full advance funding. This has apparently been the conclusion of Congress in that, since the inauguration of the CSRS in 1920, appropriations have not always been regular or complete to pay the government's share into this trust fund—that share being the amount anticipated to be required over and above employees' contributions. Federal/postal employees contributions are, incidentally, based on the whole salary or wage rather than just a portion.

More recently Congress has been appropriating the interest on the government's liability. This partially accounts for the fact that the government payment is substantially higher than that of the employees. Nevertheless, despite the spotty record of the government's contribution, as employer, in 1981 the CSRS fund had a balance in excess of $84 billion—$96 billion now—and so the CSRS cannot be represented as having financial problems. Indeed projections indicated that, if the present laws are retained and followed, there will be no financing problems in that system for at least 100 years.

Given the ability of the CSRS to meet its obligations, to federal and postal employees, the issue remaining is solely one of equity.

In our judgement the federal government should continue to provide the good labor standards (largely through the retirement program) which have enabled it to both recruit and retain a very high caliber of federal employee. Federal workers have, on a non-partisan basis, continued the efficient operation of the peoples' business in times of war and peace, in depression, recession, and prosperity, during times of political crises and times of relative calm.

Starting with the Administration of our 8th president, the federal government has been able to, and until recently, has in fact, maintained generally good labor standards, although this cannot be said of its pay policies. In fact, the intent of Congress that the pay of those in Civil Service be comparable to that of like positions in the private sector, in firms which are large if not as large as government, has not been served. Recently, this Congressional intent has been thwarted. For the present fiscal year the President's Pay Agent found that the average General Schedule employee would require an 18 percent pay increase to reach comparability because of the lag of federal pay in recent years. We entered this present calender year with the suggestion that only 4 percent would be contained in the President's budget.

We are now faced with a wage freeze, that is zero percent. Accordingly, while the pay is lacking, and this, of course, affects future annuitants' benefit levels adversely, the annuity remains the chief labor standard. We ask you to protect and preserve it.

It is asserted that federal and postal workers, with respect to Social Security, should not be in a position different from the private sector. In fact, the work situation is quite different. It is different economically in that those who work for the sovereign do not have collective bargaining anything like that encouraged by law since 1935 for the private sector. While federal workers have faced threats of periodic "lock outs" when continuing resolutions are delayed—they do not have the right to withhold their labor, since a job action can be construed as a felony. Politically the federal and postal employee is also less able effectively to petition for grievance redress, because of the excessive limitations of the 1939 Hatch Act.

In these circumstances, the federal/postal employee is left to appeal to the sense of fairness of his/her elected representatives in Congress to maintain adequate labor standards—and specifically the Civil Service Retirement System.

The role of semantics cannot be ignored. It is said that a federal annuitant who has also qualified for Social Security benefits is a "double dipper" or the beneficiary of a "windfall". Here we ask only for rights available to any other citizen. If we qualify under the law for the benefit, we should receive the benefit.

These annuitants, averaging little over $1,000 a month, are, for many, the retirement income, not a floor or supplement. These annuitants had better have some other income, from private sector employment or otherwise. The average survivor of an annuitant receives about half the benefit of an annuitant.

The Commission expressed the belief that, if Social Security coverage were mandated for new federal/postal employees, clearly an obligation would exist to devise a "supplemental" retirement program. However, the Commission declined to identify what, how much, when or by whom such a program would be worked out. Evidently, it could not be devised and put into effect by the end of this calendar year. No "overnight special" concoction could provide this. Accordingly, the new hires, after that time, would have no annuity program as do private sector employees (where, incidentally, 80 percent of the major programs supplementing Social Security are not-contributory) but could look forward with any degree of certainty only to whatever they would receive from Social Security.

The CSRS annuity is one based entirely on the employer-employee relationship. It is a condition of employment—a labor standard. The Social Security system is an income floor. These two systems are different, not incompatible and both vital to the welfare of this country. We ask the Subcommittee, the whole Committee and the House to share our faith that America will again, by growing, be wholly able, willing and ready to meet the obligation which it has pledged to meet. We trust that this moral compact with present and retired employees, and this inducement in recruiting and retention of new employees, will be protected.

MEMBER-ORGANIZATIONS OF FAIR

American Federation of Government Employees.
American Foreign Service Association.
American Postal Workers Union.
Epsilon Sigma Phi.
Federal Executive and Professional Association.
Federally Employed Women.
Graphic Arts International Union.
International Federation of Professional and Technical Engineers.
International Printing and Graphic Communications Union.
International Union of Operating Engineers.
Military Sea Transport Union.
National Association of Air Traffic Specialists.
National Association of ASCS County Office Employees.
National Association of Federal Veterinarians.
National Association of Letter Carriers.
National Association of Postal Supervisors.
National Association of Postmasters of the U.S.
National Association of Retired Federal Employees.
National Federation of Federal Employees.
Natinal League of Postmasters.
National Rural Letter Carriers Association.
National Treasury Employees Union.
Organization of Professional Employees of the USDA.
Service Employees International Union.
U.S. Air Traffic Controllers Organization.

Summary Against Placing Newly Hired Federal and Postal Employees Under the Social Security System

Congress has considered placing federal and postal employees under the Social Security System on at least five occasions. Each time, Congress has rejected the idea. Here's why:

1. IT COULD ACTUALLY COST THE TAXPAYERS MORE MONEY.

Federal workers currently pay 7% of their salaries into the Civil Service Retirement System (CSRS). Under current funding, CSRS is financially sound and will remain so for at least 100 years. But retirement systems depend on receipts from current employees to pay benefits to retired workers. Placing newly hired workers under Social Security instead of CSRS would quickly bankrupt CSRS.

Once bankrupt, the cost to the taxpayers to meet CSRS benefits already promised would be immense — a minimum of $185,000,000,000 according to independent research.

And this staggering figure is conservative since it assumes there is zero inflation during the 40 year period it will take to phase out CSRS. When a modest 5.5% inflation rate is added the cost to the taxpayers increases to at least $550,000,000,000.

2. CSRS BENEFITS ARE A SOURCE OF TAX REVENUE. SOCIAL SECURITY CURRENTLY IS NOT.

The Joint Economic Committee estimates that more than $2,000,000,000 is collected each year in federal income tax from CSRS benefits. These revenues would be lost if retired federal employees collect Social Security instead of CSRS.

Although taxing Social Security is being proposed, it would only be based on incomes of $20,000 or more. The current average CSRS annuity is less than $13,000 — and that is fully taxed.

3. FEDERAL EMPLOYEES DO NOT RECEIVE "WINDFALL" BENEFITS.

Retired federal workers have never received benefits they were not entitled to by law. Changes have already been made to Social Security which will make so-called "double dipping" much more difficult. For example, a worker must now pay into Social Security for at least 40 quarters to qualify for benefits. And there is no longer a "minimum" Social Security benefit.

4. UNLIKE CSRS, SOCIAL SECURITY WAS NEVER INTENDED AS A COMPLETE RETIREMENT SYSTEM.

CSRS was established in 1920 as a retirement system for federal employees. Social Security was started during the Great Depression as an income supplement for workers in the private sector not covered by a pension plan.

Federal policy encourages private sector businesses to establish retirement programs for its workers. Clearly, Congress should practice what it preaches and not destroy the federal retirement system.

5. ADDING MILLIONS MORE PEOPLE TO AN ALREADY OVER BURDENED SOCIAL SECURITY SYSTEM JUST DOESN'T MAKE SENSE.

The advocates claim placing newly hired federal workers under Social Security will help in the short run. However, today's contributor becomes tomorrow's liability.

In 1977, the Deputy Commissioner of Social Security testified before Congress that bringing public employees under Social Security would NOT reduce Social Security costs, would NOT reduce the Social Security deficit, and would NOT slow planned future increases in the Social Security tax.

While the proposed package of Social Security changes is expected to raise $169 billion in additional revenue, the House Ways & Means Committee estimates the Social Security System's shortfall between $60-70 billion. The advocates want to use the remainder of money raised ($80-$30 billion) to build a 15% reserve fund. That's four times more than was designated as reserve in 1977.

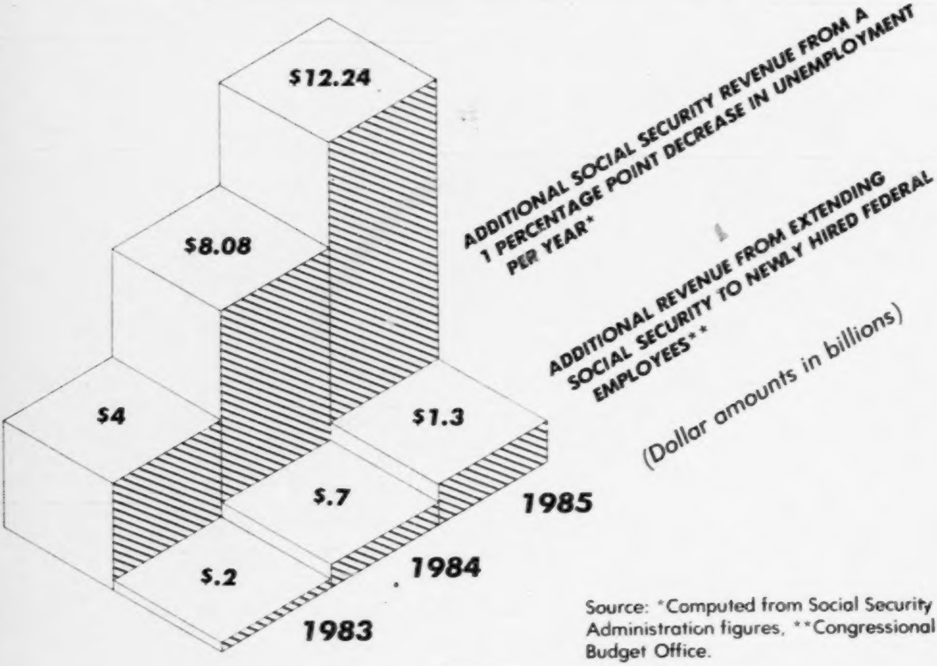
Simply reducing unemployment one percentage point each year for the next three years would raise 556% more revenues for Social Security during this period than adding newly hired federal workers.

If private sector employers paid into Social Security on the basis of their total payrolls, more than $1,000,000,000 would enter the system between now and 1990. This is much more than would be gained by including federal and postal employees.

• • •

Placing newly hired federal and postal workers under Social Security may appear attractive at first glance. However, the additional revenues it might raise for Social Security are small when compared with the hundreds of billions it would cost the taxpayers to cover the unfunded liabilities in the currently sound Civil Service Retirement System.

Placing Newly Hired Federal and Postal Employees Under Social Security

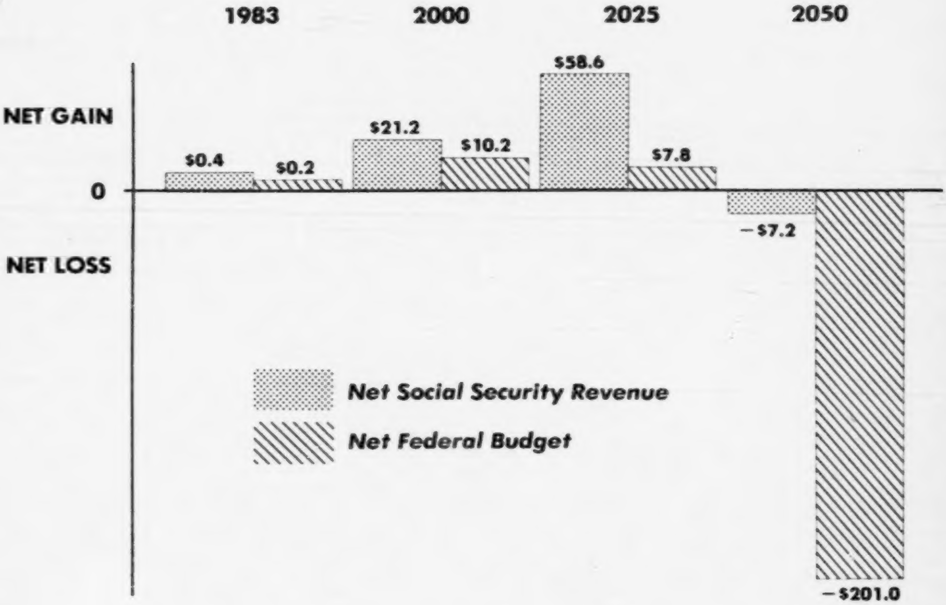


Source: *Computed from Social Security Administration figures, **Congressional Budget Office.

Placing Newly Hired Federal and Postal Employees Under Social Security

NET EFFECT ON SOCIAL SECURITY REVENUE AND FEDERAL BUDGET

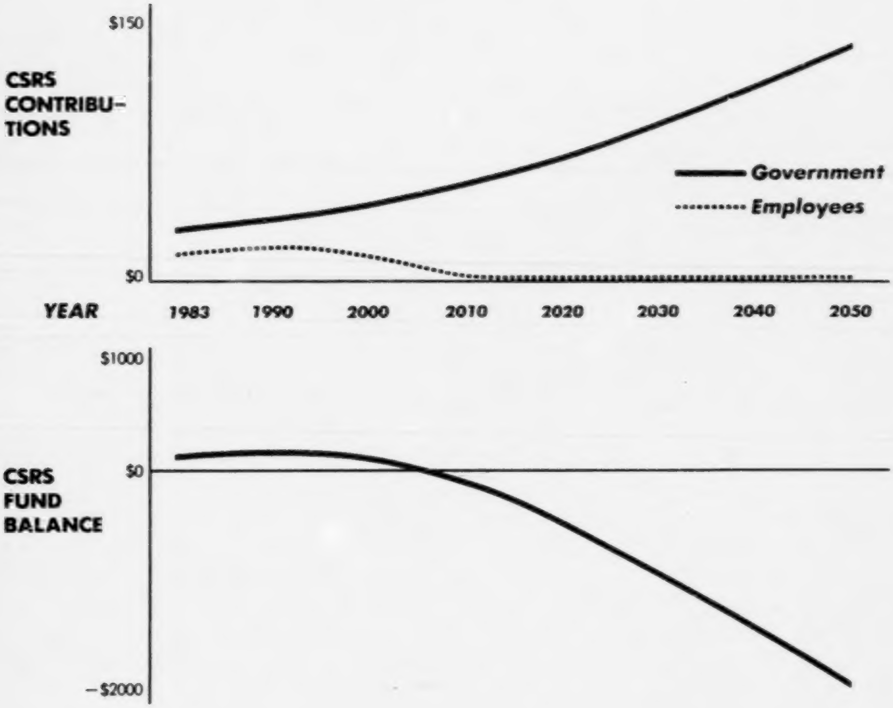
(Dollar amounts in billions)



Source: Benefit estimates from Social Security Administration

EFFECT ON CSRS CONTRIBUTIONS AND FUND BALANCE

(Dollar amounts in billions)



Source: These projections were developed by Edwin Hustead, FSA, former Chief Actuary of the Civil Service Retirement System. He is now director of actuarial consulting services, Hay Associates.

Mr. **GEPHARDT**. Mr. Schmidt.

STATEMENT OF HARVEY W. SCHMIDT, PRESIDENT, NATIONAL CONFERENCE ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Mr. **SCHMIDT**. Thank you, Mr. Chairman.

Mr. Chairman and members of the committee, my name is Harvey W. Schmidt. I am president of the National Conference on Public Employee Retirement Systems. The National Conference is a nationwide organization which consists of about 180 public retirement systems, the combined membership of which is around 4 million persons.

I have filed written testimony and will add a few comments now at this time.

I attended some of the hearings last week, and I am fully aware of the sensitivity that the committee has to any suggested changes and how important it is to keep intact the National Commission package as presented. Although our conference and member organizations are interested in all issues, I would like to briefly comment on two.

First, we are pleased that the National Commission on Social Security Reform has not recommended the mandatory coverage of the State and local employees which are not currently covered by the social security system. This type of coverage has been discussed with the view of providing short-term revenue for the social security fund, as well as trying to correct inequities in benefits to those persons who have spent a relatively small proportion of their working career in covered employment as opposed to those who spend the majority of their career in noncovered Government employment.

We believe that the inclusion, involuntary inclusion, of State and local governments in the Federal social security system violates the constitutionally protected right of the States to their separate and independent existence. There appears to be no overriding Federal interest in mandatory, universal coverage that would justify interference with the States' sovereign function.

The Commission has noted this item on page 227 of their report. State and localities without social security have established separate retirement systems around the country that were designed without regard to social security coverage. Benefits and employee benefits in these systems are generally high. If social security was simply added as a supplement, these benefits and contributions might be thought to be excessive.

Since some States have constitutional prohibitions against reducing the retirement system benefits, such benefits could not readily be reduced by, to recognize the introduction of social security into the systems. We assume that the Greenspan Commission considered these factors in their deliberations and we are gratified that no recommendation was made for mandatory social security coverage of all public employees.

We hope that this committee in its deliberations will also agree with our position and resist any attempt that may be made to cover State and local employees mandatorily.

My final remarks will address section 334 of the 1977 social security amendments, which reduced social security benefits for spouses receiving Government pensions. This is commonly referred to as the offset provision. This provision was to take effect at the end of 1982, but now has been delayed until July of 1983.

However, if it does become effective, it will reduce the social security spouses' benefit for workers in State and local governments by $1 for each dollar of noncovered pension benefits. This is clearly a discriminatory application since the same provision does not apply to nonprofit employees, nor to those that are entitled to a pension from covered employment.

In essence, it applies to two sets of principles, to one set of benefits. We hope that this committee will act to repeal this section of the present social security law before it becomes effective in July 1983.

I know that in fine tuning some of these things that careful consideration has to be taken to the package. I would like to thank the committee for this opportunity to express our views. We will submit a supplemental statement on the other issues in the very near future.

[The prepared statement follows:]

STATEMENT OF THE NATIONAL CONFERENCE ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Mr. Chairman, members of the Committee, my name is Harvey W. Schmidt. I appear before you today as President of the National Conference on Public Employee Retirement Systems. The National Conference is a nation-wide organization comprised of approximately 180 public retirement systems with combined memberships of approximately 4 million persons. Our representations cover about 47 percent of all state and municipal employees.

It is our understanding that this Committee has established these hearings to accept testimony from public witnesses covering a variety of issues concerning the Social Security System, its financing, benefit structure and coverage. Although our Conference and member organizations have interest covering all of these issues, I will address only a few issues which we hold in the highest of priorities.

I would remind this Committee that on December 16, 1981 President Reagan promulgated executive order 12335 which established the National Commission on Social Security Reform. This National Commission was created as a result of the continuing concern of the Administration and the Congress on the financial condition of the Old Age and Survivors' Trust Fund. The Commission was assigned the critical job of assessing whether the OASDI program has financial problems in the short run and over the long range future and if so, recommend how such problems could be resolved.

During the last 15 months, the Commission met 9 times on approximately a monthly basis. It has reviewed the results of many hearings, previous studies and commission reports which had preceded it but decided not to hold any public hearings. As a result, Chairman Alan Greenspan forwarded the Commission's report on January 20 to the President of the United States and to the United States Congress. I am sure the findings of the Commission and its subsequent recommendations will be deliberated at great length during these hearings by your Committee and subsequently by the entire Congress over the next several weeks.

We are encouraged to see that the Commission in its recommendations and considerations, has found it in its wisdom not to recommend the mandatory coverage of non-covered state and local employees which presently are not covered by the Social Security System. For many years on several occasions this issue has been raised as a means to, on one hand, provide short term revenue for the OASDI fund and at the same time correct what was perceived as an inequity in benefits received by those who spent a relatively small portion of their working career in covered employment, as opposed to the majority of their career being spent in non-covered Government employment.

This Conference has consistently through the years suggested that if there are inequitable benefits received by those spending relatively small portions of their working career in covered employment, those areas in the Social Security System should be addressed and re-adjusted. However, to include non-covered employees in order to reach and correct such a problem would create many additional problems in itself. First there are constitutional impediments. We believe that the involuntary inclusion of state and local governments in the Federal Social Security System violates the constitutional principles of Federalism as most recently articulated by the U.S. Supreme Court in the National League of Cities vs Usery (426 U.S. 833 1976). Some have suggested that the question of mandatory coverage might be upheld if the court were to adopt the balancing test set forth in Justice Blackman's one paragraph concurring opinion in the League of Cities case. We believe this argument would fail since the court rejected the opportunity to adopt Justice Blackman's balancing test. Even if Justice Blackman's test were adopted however, there is no overriding federal interest in mandatory universal coverage that would justify interference with the state's sovereign functions.

One of the earliest manifestations of the Court's concern with federalism is the doctrine of intergovernmental tax immunity, setting limits on the power of either State governments or the national government to tax the other or its instrumentalities. In applying this doctrine over the years, the Court has consistently required that any such federal taxation must meet two conditions to be constitutional; (1) that it not discriminate against the States, and (2) that it not interfere with the governmental functions of the State.

Therefore, any attempt by Congress to dictate to the States how they must structure their employer-employee relationships is constitutionally proscribed. Under universal mandatory Social Security coverage, State pensions, a part of the basic compensation package agreed to by the State and its employees, would become the subject of federal mandate. Like Federal minimum wage and maximum hour requirements, mandatory coverage would displace the States' authority to make the fundamental employment decisions on which their systems for performing traditional State functions rest, and would, therefore, be unconstitutional.

The Social Security System has survived since its inception without mandatory universal coverage. Any Federal interest now in including state and local employees is merely one of financial convenience. Even if a balancing test were applied, such a tenuous justification could not outweigh the constitutionally protected role of the states in their separate and independent existence.

Additionally, states and localities without social security have established separate retirement systems that were designed without taking social security into account. Benefits and employee contributions are generally high. If social security were simply added as a supplement, benefits and contributions would likely be excessive. Moreover since some states have constitutional prohibitions against reductions in retirement system benefits those benefits could not readily be reduced.

I would also remind the Committee that for the first 15 years of social security public employees were exclude and not permitted to join the Social Security System even had they so desired. In order to attract employees, states and local governments found it necessary to create their own pension systems if they had not already done so. While the total exclusion was ended in 1951, when state and local retirement systems were given the option voluntarily to affiliate, many systems have not done so because of the investment both public employers and public employees have made in the continuance of their system. We believe that the bottom line for state and local government effect if mandatory coverage were adopted, would be an unreasonable increase in costs since in most cases public employers would find themselves faced with increased pension costs of 6.7 percent of present payrolls. This in itself could force many local governments into bankruptcy.

We hope that the Committee in its deliberations will agree with our position and rebut any attempts that may be made to extend the consideration of coverage to state and local employees now presently excluded from coverage.

I would now like to address Section 334 of the Social Security Amendments of 1977 which reduced benefits for spouses receiving government pensions, this commonly known as the social security offset. This provision was enacted in order to eliminate what was perceived as an unfair advantage for those working in non-covered employment who were entitled under the dual entitlement rules to the higher of their primary social security benefit as derived from a worker's own covered retirement history or a full spouse benefit paid to the spouse of an entitled worker. The individual in effect was allowed to receive the higher of the two. This primarily affected women in the work force since most women workers still earn less than men and generally have a more sporadic work history. Married women retirees typically receive the higher spouse benefit rather than the primary benefit which they would be entitled to as earned through their work experience. Thus, women who were married to spouses in the covered work force were able to terminate their social security coverage and see no decrease in their retirement income since their spouse benefit would be higher in any event.

The National Conference does not believe that this is an unfair advantage, however, we do believe that this is a clear discriminatory action applied to a selected work force, i.e., those employed by the Federal, state and local governments. The offset provision enacted in 1977, which was to take effect at the end of 1982 but has now been extended until July of 1983, will essentially apply the dual entitlement principle to workers entitled to both a pension from work in Federal, state and local governments not covered by social security and to a social security spouse's benefit. Although this provision attempts to eliminate what is perceived as an advantage of the social security spouse benefit for workers in state and local governments, by reducing their spouse's benefit $1.00 for each $1.00 non-covered pension benefit, it sets up a discriminatory application since the same provision does not apply to nonprofit employees, nor to those that are entitled to a pension from covered employment. We therefore, believe that the present offset unfairly discriminates against those in state and local government employment and attempts to apply two sets of principles for one set of benefits. We would hope that the Committee would act to repeal this section of present law.

Included in the Commission's recommendations is a proposal which would tax social security benefits to those individuals with adjusted gross incomes of $20,000 or more for an individual and $25,000 or more for a married couple. The revenue from this provision would be credited to the social security cash benefit trust fund. It is proposed that this recommendation would raise as much as $30 billion in revenue during the period 1983-89 and would reduce the long term deficit by 6/10th of a percent. However, the Conference believes that this proposal is inappropriate and as presently conceived unfair. For current retirees and those approaching retirement, this proposal represents an abrupt reduction of 11-25 percent in social security income and an unfair change in the rules of the game.

Additionally, in the future, the $20-25,000 thresholds could easily be lowered (as has already been done with unemployment compensation) thus subjecting lower and moderate income beneficiaries to the tax. Once the precedent of taxing benefits is set, the elderly will feel that no one's benefit is safe, especially if the Commission's proposals fail to meet the system's short-term financing needs. And, even if the thresholds remain the same, inflation will effectively reduce them. In fact, by 1990 using the inflation assumptions underlying the Commission's proposals, these thresholds would be reduced to $13,660 for an indivdual and $17,076 for a couple in today's dollar terms.

There are also serious technical problems with the currrent proposal. The most major is a notch problem affecting taxpayers whose adjusted gross incomes just slightly exceed the threshold. Taxpayers in this situation could find their tax liabilities 25-30 percent (36-58 percent for married couples) higher than taxpayers with incomes just below the threshold.

Correction of this notch problem by the tax-writing committees will mean that either beneficiaries with AGIs below the current threshold (possibly as low as $14-15,000) would be affected or the expected revenue of $30 billion would be substantially reduced, perhaps even cut in half.

Impact on Younger Workers.—Younger workers have even more at stake under the Commission proposal because in the future, virtually all Social Security recipients (except those who are relatively poor) will have 5-25 percent of their social security benefits recaptured via the income tax system. This will occur because under this plan the $20-25,000 thresholds are not indexed. This is why this proposal contributes so much to ameliortating the long-term term deficit. In fact, the proposal to tax one-half of social security benefits only for persons with AGIs above $20-25,000 as the same proposal without thresholds.

Under current tax law, aged taxpayers pay no income taxes until their AGIs (excluding social security) exceed $4,300 for an individual and $7,400 for a married couple. Within 25-30 years, the $4,300 "minimum" taxable threshold will meet the $20,000 threshold and the $7,400 "minimum" taxable threshold will meet the $25,000 threshold contained in the Commission's proposal. These estimates assume the short-term inflation rates underlying the Commission's package and the long-term (1990+) inflation rates contained in the II-B assumptions of the 1982 Social Security Trustees Report.

Therefore, in 25 to 30 years, the thresholds in the Commission's taxation of benefits proposal will be inoperative. The proposal will affect the future social security beneficiary population in almost the same manner that it would affect the current social security beneficiary population assuming there are no protective thresholds at all.

The last issue I would like to touch on is a proposal by the Commission which would prohibit State and local governments terminating their social security coverage. The Conference fully supports a voluntary Social Security System. We believe the major factor underlining the original extension of social security coverage to State and local employees on a voluntary basis, was a congressional desire to provide the opportunity for coverage to these employees in a way that would avoid constitutional and political barriers. The same issue which we discussed earlier surrounding the mandatory coverage question. The provision for withdrawing from the System was seen as a necessary correlation to the extension of coverage on an optional basis, but it was never an end in itself.

The fact that a growing number of employee groups will select to exercise this option to withdraw has raised this question in the past with Congress, and I am sure the National Commission's recommendations weighed that factor heavily in its considerations.

The Conference opposes any prohibition against the present provisions for withdrawal for State and local employee groups from the system.

I would like to thank the Committee for the opportunity to express these brief views on several of the many issues which you will be deliberating on over the next coming weeks. Again, many of our member organizations will be communicating with you on their positions concerning these and many other areas affecting the Social Security System and its present financial problems.

Mr. GEPHARDT. I would like to thank you and all of the members of this panel for being here and presenting the written and oral testimony. I am going to defer to my chairman, who has reentered the room, Mr. Pickle.

Chairman PICKLE. I would ask the panel as a group, do any of you want to make any additional statement at this point?

Mr. ANDOLSEK. Yes. I would like to, Mr. Chairman.

Chairman PICKLE. I will recognize you, Mr. Andolsek, for just a brief statement. I have to limit you. [Laughter.]

Mr. ANDOLSEK. Can I make just a few clarifying remarks on things I heard here this morning about the civil service financing? It was never intended to be equal sharing of costs between employer and employee from the beginning in 1920. Employees were to pay a fixed percentage of pay and the employer was to pay whatever additional amount was needed to pay the benefits promised by the system.

The unfunded liability did not result from the employer's failure to match employee contributions, but, rather, from the failure to fund retirement liabilities as they were created.

Then our severist critics of the system have to agree that the system is financially sound and adequate. The actuaries have said it is actuarily sound for 100 years. The present financing system that was written into law in 1969 did not create an additional liability responsibility for the Government or the employer. It merely prescribed the mechanics by which the employee would meet his recognized responsibility.

Had that act been implemented in full, where the Government was going to pay one-thirtieth of new liabilities to the fund each year, we would have 13 years down our belt by now and it would have saved a lot of interest and a lot of cost. But our first one-thirtieth was broken down into 10 segments.

Eighty percent of the people in the retirement plans do not pay any money into their plan. My good friend, Hastings Keith, knows very well that you can send a letter to the Treasury and tell them you want to give your check back or deduct, and they will do it, but you cannot expect the Secretary of that important Cabinet post to call a big meeting with all of the cameras and lights there for him to give back a check.

I also want to say to you the universal social security coverage is not the universal solution to the social security problem. Please give us a chance.

Chairman PICKLE. I do not think we are contending that it is the solution. It is part of a contribution to the system or the solution of it.

Now one of the other gentlemen. Mr. Cosgrove.

Mr. COSGROVE. Yes, Mr. Chairman. I just wanted to simply emphasize that the civil service retirement annuity is really deferred income. This is money earned under the agreement under which people are recruited and retained. A very high caliber of Federal and postal workers is recruited under the assumption that this labor standard will apply, and we think this should continue to be true of new hires, even as it has been in the past.

I think that the reference earlier to COLA, in one of the earlier panels, being one of the great difficulties here overlooks the fact that to allege that the salary or COLA increases fuel inflation is to suggest that the caboose pushes the train. By definition, the COLA always follows after the event, and I think that, therefore, while it is a cost factor, it is one that is necessary in equity and that is why it is in the law.

The last point I would make is simply that we think that this much-touted supplemental program, and I referred to this briefly before, ought to be devised when there seems to be a wide agreement that some such thing should be devised. To suggest that this could be done in the time frame that it is urged we must amend the Social Security Act, the next 60, 90 days or whatever, is to suggest an Alice in Wonderland impossibility.

I think an overnight special concoction of some sort between now and May or June is not a possibility. I think it requires very grave study of the interfacing and complex issues involved here before we can consider such a supplemental plan. Thank you.

Chairman PICKLE. Mr. Jacobs.

Mr. JACOBS. Let me ask just one question of the sergeant major. Sir, if you had your 'druthers, would you take the military off of the social security program?

Mr. MCKINNEY. I beg your pardon?

Mr. JACOBS. Would you advocate taking the military out of social security?

Mr. MCKINNEY. No, sir, I do not, and the reason for it is simply, one, that the military retirement system is not a vested program, and only about 1 to 2 people out of every 10 will remain in the military long enough to receive or become eligible for retirement pay.

The rest of them have nothing to show for any service, including an individual who serves 19 years and 11 months and 29 days. They cannot get a cent of retired pay until they hit the 20th year, so they need the social security program.

Mr. JACOBS. Thank you, and semper fi.

Chairman PICKLE. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman.

Gentlemen, if you do not have the answer now to the question I shall be asking you, could you provide it to me or to the committee.

Do you agree or disagree with the comments made by the former panel, Mr. Schieber in particular, on the point that if you close the system today under current benefit standards the unfunded liability would be $530 billion? In other words, the Government will have to pay $530 billion in order to finance benefits for all of those currently in the work force and currently retired.

And then, second, according to Mr. Keith's actuarial review, that the deficit would be some $860 billion by 1993. Do you disagree or agree with that analysis?

Mr. ANDOLSEK. I would disagree. I would like to bring this down to today's level. When they talk about this $500 billion unfunded liability, they concocted some new kind of a term. It is a dynamic computation or assumption, and we are being accused in the Civil Service Commission of using a static assumption and so forth.

But when Uncle Sam pays to the Treasury fund on July 1, they do not use that dynamic assumption. They pay on the basis of $185 billion. We contend that the two systems can be improved. They are both desperately needed in this country. Old people are afraid; they are scared to death. They are crying. They are eating animal foods, they are so desperate. They are not making out, only 1 percent of our members are making a pretty good annuity.

The gentleman talks about 40 some years ago. I started in 1936 for $100 a month, but in 1937 and 1938 I bought a brand new car with all of the goodies on it for $678. If I go to buy that car today, it is going to cost me $25,000 or $26,000. So I would disagree.

The other point, Mr. Congressman, when you asked a little earlier from one of these other witnesses, for years and years we have insisted that those 4 or 5 years should be picked up and when a person goes to work for the Government the Congress could very easily pass legislation to say that they will pay just like they do under the system, but if they do not vest after 5 years, put that money and send it over to social security and give them that many quarters of credit and there will not be this blind spot in the person's life.

So let's be factual. Let's not throw billions and millions of dollars around. Let's talk about what it is. The unfunded liability is $186 billion.

Mr. MATSUI. Then what you are saying is as of today it is $186 billion?

Mr. ANDOLSEK. As of the last report I had, yes.

Mr. BEERS. Mr. Congressman, as I understand, you would like to have statements from each of us giving our views on the matter of the unfunded liability. I would like to emphasize that the Foreign Service is covered under its own separate retirement and disability fund. In other words, we represent about 1 percent of the size of the civil service fund.

We are very, very small, so I just want to make clear that we are not in any position at all to really comment on the figures pertaining to civil service. However, if you would like, for the record, for us to seek to get from the Department of State a computation on the unfunded liability of the foreign service fund, assuming that new employees went under social security the first of the year, we can do that for you, sir.

Mr. MATSUI. I would appreciate it if you could get that information.

[The information referred to follows:]

The contingent liability of the Foreign Service Retirement and Disability System is estimated to approximate $5.3 billion as of June 30, 1983.

Mr. COSGROVE. If I may, not having seen in detail Mr. Schieber's submission before, if I could have an opportunity to submit further on this, if we could, for the record, for the clarification of the issues before the committee it would help.

I agree, however, with the comments Mr. Andolsek and Mr. Beers have made. I think that when you look at the macro situation of these billions, it is to some extent a numbers game and, to some extent, it is paper debts. But to some extent, it is a very real obligation that the Government has not met because of the sporadic, as has been noted earlier this morning, off-and-on-again appropriations by the Congress to its liability and/or now to the interest payment.

I think the micro thing is what is interesting, and that is that an average annuitant getting about $1,000 a month for the benefit and if you are a survivor-annuitant you are getting less than half of that. So if that is true, and those are the figures, then we had better have some other source of income.

So the fact that some of the people have fully qualified under law for both social security and the civil service retirement seems to us appropriate and we should be treated as all other citizens who might otherwise qualify and not in some way be relegated to second class citizenship simply because we worked for the sovereign, simply because we worked for the Government.

There is an employer-employee annuity that is earned, and we think it should be paid together with any other savings or whatever else we might be able to accumulate.

Mr. MATSUI. Thank you. Thank you, Mr. Chairman.

Chairman PICKLE. Well, we thank all of you gentlemen for your testimony and appreciate your taking time to let us hear your views. You are welcome back at any time, particularly you, Mr. Andolsek. We would love to meet with you.

Mr. ANDOLSEK. I would love to, Jake. Believe me, the Commission never asked any one of us from my office for any comments on their report, which they studied for over a year. We are interested. We are taxpayers. We are interested in America, but let democracy prevail and let's have a discussion and debate and work this thing out where both systems can survive.

They went along since 1920 and when social security came in in 1937. There have not been any problems until the last 5 or 6 years, you see.

Chairman PICKLE. Mr. Andolsek, we share the same feelings.

The next panel will be Mr. Fred Hince, Mr. David Mustoe, Mr. Bruce Hineman, Mr. Richard Zimmerman, Mr. Robert Carlson, and Mr. John Jennings.

If you gentlemen now will come forward and, though it is not necessary, but if we could have on the right Mr. Hince and next would be Mr. Mustoe. Then would be Mr. Hineman, then Mr. Richard Zimmerman, Mr. Robert Carlson, and then Mr. John Jennings.

As you are getting the names placed, I am advised that Mr. Charles Morris, who testified this morning wanted to have the record corrected with respect to the amount of pension he had received from the time since he retired. He testified that since he retired it was based upon his wages and the system had reported that he had received pension benefits in the amount of $242,000, and that he wants that corrected to show that it is $142,000. So the record will be corrected.

Now, Mr. Fred Hince represents the Municipal Employees Society of Chicago and the International Brotherhood of Electrical Workers, Local 9.

Mr. Mustoe represents the Public School Retirement System of Missouri. Then, Mr. Bruce Hineman is the executive secretary of my own Texas State Retirement System, an organization I am very proud of and proud to have you here, Mr. Hineman.

Then, Mr. Richard Zimmerman is the assistant executive director of Member Benefits of the State Teacher Retirement System of Ohio. Mr. Zimmerman.

Then, Mr. Robert Carlson is president of the California Public Employees Retirement System. Mr. Carlson, we are glad to see you again.

The International Association of Firefighters is represented by Mr. John Jennings, as trustee of the Professional Firefighters of Massachusetts.

Now, Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. I would just like to welcome Mr. Carlson, who is a constituent of mine in Sacramento and who serves as president of the California State Employees Association. Morever he is very active in our communities, devoting time on the Board of Trustees of our local hospital. I welcome Bob here today.

Chairman PICKLE. We are glad to have you, Mr. Carlson, and all the rest of you gentlemen. Now we are going to ask each one of you to present your testimony and we would ask you to summarize it within the 5-minute confines and we will receive all of the testimony first.

STATEMENT OF FRED S. HINCE, PRESIDENT, MUNICIPAL EMPLOYEES SOCIETY OF CHICAGO, AND PRESIDENT, LOCAL UNION 9, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

Mr. HINCE. Thank you, Mr. Chairman. I am Fred Hince, covered by social security, and I am also a civil service employee of the city of Chicago for 35 years.

I represent some of the members of the Municipal Employees Association, called the Municipal Employees Society. I also represent the members working for branches of government in local union 9, IBEW, about half of whom work for government, the other half who work in private industry. So I have the unique position of being able to appreciate the views of both government employees and those in private industry.

I, after all the profound statements that you have heard this morning, I think everybody is a little bored and tired. I would like to offer a change of pace. I would like to offer you a summary of the grassroots feeling of some of my fellow workers. I can speak for the linemen and the trademen and the clerks and stenographers because, as you can see, I am one of them.

These people think you want to hear their own words and have asked me to bring them to you. We are aware of the problem in social security and of the budget. We regret that the social security system has been allowed to become in such a sorry state. We are disillusioned, disappointed that the original concept has been lost.

But considering the alternatives, there seems to be no other choice but to accept the best of whichever rescue plan evolves. We feel that we have sent able people to Congress with the expertise available and the large amount of commonsense applied. There seems to be among us a common confidence in the outcome.

However, the reverse is true when mandatory inclusion of Government employees into the social security system is discussed. The mere mention of it engenders reactions that begin with outrage and ascends upward. With the pay and working conditions on our jobs equal to or below those in private industry, many workers opted for Government employment because of better pension plans. Through the years we have built up an annuity with our money and our labors.

Every dollar in the fund belongs to us. It is not a second Government fund. We own it and the millions of dollars in the fund came from the withholdings from our paychecks, the employers' payment of earned fringe benefits and investment earnings. Every dollar is earned and owned by us as much as a dollar on our paycheck.

We consider it illegal and unfair for any attempt to alter our personally owned pension annuity or its benefits. If we are forced into social security, our feelings of being victimized and used will be justified. If mandatory inclusion does occur, we see this scenario.

The loss of income from the new hires gone. The income from the employers for the new hires gone. A run on the bank sort of withdrawal of funded equity by early retirement. Therefore, a drastic reduction in investment capital with a corresponding loss of interest earnings, and, finally, the collapse of the system when the funds will not be available to pay benefits.

The constitution of the State of Illinois provides that our annuities and benefits may not be diminished or impaired. With the benefits due and the funds not available, the only possible solution will be a new and unnecessary tax at home. None of this need occur if mandatory inclusion is not imposed.

Plainly speaking, gentlemen, we are opposed to mandatory social security coverage. We ask you to allow us to keep our money, to avoid an unneeded tax and keep us from being forced into the social security system.

I have about 1 minute and 30 seconds left, I think, and I am ready for your questions.

Chairman PICKLE. Thank you, Mr. Hince.

[The prepared statement follows:]

STATEMENT OF FRED S. HINCE, PRESIDENT, MUNICIPAL EMPLOYEES SOCIETY OF CHICAGO, PRESIDENT, LOCAL UNION NO. 9, INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

Good morning gentlemen. I am Fred S. Hince, Social Security number 341-10-0555, a Civil Service employee of the City of Chicago for thirty-five years. After all the profound statements you have heard, I would like to offer a change of pace, sort of a summary of the grass roots feelings of my fellow workers. I can speak for the linemen and other tradesmen, for the clerks and stenographers because as you see, I am one of them. These people think you want to hear their own words and they have asked me to bring them to you.

We regret the Social Security System being allowed to come to such a sorry state. We are disillusioned and disappointed that the original concpect has been lost. Considering the alternatives, there is no other choice but to accept the best of whichever rescue plans evolve. We feel we have sent able people to Congress. With the expertise available and with large amounts of common sense applied, there seems to be among us a calm confidence in the outcome.

However, the reverse is true when mandatory inclusion of government employees into the Social Security System is discussed. The mere mention of it engenders reactions that begin with outrage and ascend upward.

With pay and working conditions on our jobs equal to or below those paid in private industry, many workers opted for government employment because of a better pension plan. Through the years we have built up an annuity with our money and our labors. Every dollar in the fund belongs to us. It is not a second government fund. We own it. The millions of dollars in the fund came from the withholdings from our paychecks, the employers' payment of earned fringe benefits and investment earnings. Each dollar is earned and owned by us as much as a dollar on our paychecks. We consider as illegal and unfair any attempt to alter our personally owned annuity plan or its benefits. If we are forced into Social Security our feelings of being victimized and used certainly will be justified.

If mandatory inclusion does occur, we see this scenario:

Income from new hires lost;

Income from employers for new hires lost;

A "run on the bank" withdrawal of fund equity by vested participants under age fifty-five;

The drastic reduction of investment capital with a corresponding loss of interest earnings; and finally

The collapse of our fund until soon no benefits could be paid.

The Constitution of the State of Illinois provides that our annuity benefits may not be diminished or impaired. With benefit due and no funds available the only possible solution would be a new and unnecessary tax.

None of this need occur if mandatory inclusion is not imposed. Plainly speaking gentlemen, we are opposed to mandatory Social Security coverage. We ask that you allow us to keep our money, avoid an unneeded tax and keep us from being forced into the Social Security System.

Thank you. I am ready for your questions.

Chairman **Pickle**. Now, Mr. Mustoe.

STATEMENT OF DAVID W. MUSTOE, EXECUTIVE SECRETARY, THE PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI

Mr. **Mustoe**. Mr. Chairman and members of the committee, I am David Mustoe, executive secretary of the Public School Retirement System of Missouri. I appear here today on behalf of more than 70,000 active and retired Missouri public school educators.

We in Missouri are aware of the problems facing the social security system in fulfilling its promises to American working men and women. We commend the National Commission on Social Security Reform in its efforts to find equitable and feasible solutions to these problems. We extend our support to this committee and to the Congress as it faces the difficult decisions which lie ahead.

The public school retirement system of Missouri currently pays annual benefits of approximately $90 million to more than 15,000 retirees, disabled former teachers, and beneficiaries of deceased teachers. The system is a joint contributory one in that the members pay a percentage of their salaries to the retirement system which is matched by their school district employers.

Administration of the retirement system is by an autonomous board of trustees made up of teacher elected representatives and the lay public. Public schoolteachers in this system are not covered under social security.

The retirement system began operations in 1946, prior to the time that public employees were extended the right of social security coverage. Missouri public schoolteachers later elected not to enter the social security system. It was their belief then and continues to be that Missouri could build a better, more professional program for its own career educators than could be provided at the Federal level. The intervening period has, I believe, proven the validity of this thesis.

Missouri now has one of the soundest and most professionally rewarding teacher retirement systems in the Nation. It has reached that position because of the willingness of Missouri teachers and taxpayers to provide the necessary financial support, the considered restraint exercised by those teachers in not asking for benefits which could not be funded, and a farsighted and supportive State general assembly, which has steadily improved the retirement program in a fiscally responsible manner.

Missouri teachers are pleased that the Commission has not recommended extension of social security coverage to State and local government employees like themselves. We believe this to be wise both from the standpoint of questionable constitutionality and the perceived damage to many public retirement systems which could result.

At the present time, the public school retirement system of Missouri has assets of almost $2 billion invested solely in American enterprises. The system grows at the rate of about $300 million each year and has been projected to exceed $6 billion within 20 years. More than 60 percent of the fund is invested in long-term corporate bonds, with the balance invested in guaranteed mortgages, common stocks and in short-term corporate discount notes. Less than 3 percent of the funds are committed to Government securities.

These funds make a significant contribution to the generation of the Nation's investment capital. If Missouri teachers were to be forced into the social security system, the flow of these funds into the American business economy would be seriously curtailed. At a time when the Nation is faced with a serious economic recession, a formidable national deficit and an unacceptable rate of unemployment, we must not, I believe, restrict the production of investment capital so important to the solution to these problems.

Mr. Chairman, you and your fellow Congressmen are faced with a gigantic task in insuring the continuance of a national retirement plan which has come to mean so much to so many. I am certain that the committee shares our concerns with the recommendations of the National Commission. The Commission has struggled with enormous problems in attempting to present a package to the Congress which would apply equitably to all affects constituencies.

There are no simple or easy solutions, and I again commend the Commission on the completion of a difficult assignment. As you begin your deliberations, I hope that you will remain ever mindful of the contribution which retirement systems like the one I represent have made and will continue to make to our society. We in Missouri wish you the best in your endeavor, and we extend our support to you.

Thank you for the opportunity to speak for Missouri teachers.

Chairman PICKLE. We thank you, Mr. Mustoe.

[The prepared statement follows:]

STATEMENT OF DR. DAVID W. MUSTOE, EXECUTIVE SECRETARY, THE PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI

Mr. Chairman and members of the committee: I am David W. Mustoe, Executive Secretary of The Public School Retirement System of Missouri. I appear here today on behalf of Missouri public school educators, active and retired, and believe that I speak as well for other Missourians who support public education in our state.

We in Missouri are aware of the problems facing the Social Security System in fulfilling its promises to provide financial assistance to American working men and women in their retirement years. We commend the National Commission on Social Security Reform in its efforts to find equitable and feasible solutions to these problems. We extend our support to this Committee, and to the Congress, as it faces the difficult decisions which lie ahead in considering the recommendations of the Commission.

The Public School Retirement System of Missouri is established by law and covers more than 58,000 teachers and administrators serving students in Missouri public schools. The System currently pays annual benefits of approximately $90 million to more than 15,000 retirees, disabled former teachers, and beneficiaries of deceased teachers. The System is a joint-contributory one, in that the members pay a percentage of their salaries to the Retirement System which is matched by their school district employers. Administration of the Retirement System is by an autonomous Board of Trustees made up of teacher-elected representatives and the lay public. By sharing equally in the funding of their System and by electing their colleagues to its governing board, Missouri teachers have a strong voice in the control and destiny of their benefit program.

Public school teachers in their retirement system are not covered under Social Security. The Retirement System began operations in 1946, prior to the time that public employees were extended the right of Social Security coverage. In a statewide referendum held in 1956, Missouri public school teachers elected not to enter the Social Security System. It was their belief then, and continues to be, that Missouri could build a better, more professional program for its own career educators than could be provided at the federal level. The intervening period has, I believe, proven the validity of that thesis; Missouri now has one of the soundest and most professionally rewarding teacher retirement systems in the nation. It has reached that position because of (a) the willingness of Missouri teachers and taxpayers to provide the necessary financial support, (b) the considered restraint of those teachers in not asking for benefits which could not be funded, and (c) a far-sighted and supportive state general assembly which has seen and responded to the needs of Missouri teachers in a fiscally responsible manner. This retirement system has thus provided some sense of security to a group whose salaries have remained well below the national average for their profession.

Missouri teachers are pleased that, while the Commission has recommended extension of Social Security coverage to other groups, it has not included state and local government employees—like themselves—in those groups. We believe this to be wise, both from the standpoint of questionable constitutionality and the perceived damage to many public retirement systems which would result. Any mandatory inclusion in the Social Security System for Missouri teachers would present a myriad of funding and benefit calculation problems, would probably reduce the total benefits of future retirees, and would likely increase the overall costs of benefits to the state and its teachers.

At the present time, The Public School Retirement System of Missouri has assets of almost $2 billion, invested solely in American enterprises. The System is growing at the rate of about $300 million each year, and has been projected to exceed $6 billion within twenty years. More than sixty percent of the fund is invested in long-term corporate bonds; sixteen percent in guaranteed mortgages; twelve percent in common stocks; nine percent in short-term corporate discount notes. Less than three percent of the funds are committed to government securities. Consideration is currently being given to channelling additional funds into the real estate market. These funds make a significant contribution to the generation of the nation's investment capital. If Missouri teachers were to be forced into the Social Security System, the flow of these funds into the American business economy would be seriously curtailed—if not eliminated altogether. At a time when the nation is faced with a serious economic recession, a formidable national deficit, and an unacceptable rate of unemployment, we must not, I believe, restrict the production of investment capital which can aid us in addressing these problems.

Mr. Chairman, you and your fellow Congressmen are faced with a gigantic task—ensuring the continuance of a national retirement plan which has come to mean so much to so many. I am certain that the Committee shares our concerns with all the recommendations of the National Commission—all Americans would be affected in some way by them. The Commission has struggled with enormous problems, and has attempted to present a package to the Congress which would apply equably to all affected constituencies. There are no simple or easy solutions, and I again commend the Commission on the completion of its difficult assignment.

As you begin your deliberations, I hope that you will remain ever mindful of the contribution which professional retirement systems like the one I represent have made and will continue to make to our society. We, in Missouri, wish you the best in your endeavor, and we extend our support to you.

Thank you for the opportunity to speak for Missouri teachers.

Chairman PICKLE. We will not recognize Mr. Bruce Hineman from Texas.

STATEMENT OF BRUCE HINEMAN, EXECUTIVE SECRETARY, TEACHER RETIREMENT SYSTEM OF TEXAS, AND SECRETARY-TREASURER, NATIONAL COUNCIL ON TEACHER RETIREMENT

Mr. HINEMAN. Mr. Chairman and members of the Subcommittee on Social Security, I am Bruce Hineman, executive secretary of the Teachers Retirement System of Texas. I am representing 536,000 members of the Teacher Retirement System and I am also representing the National Council on Teacher Retirement, as its secretary-treasurer. The National Council comprises 44 statewide teacher retirement systems and 15 large local teacher retirement plans.

As a resident of the 10th Congressional District in Texas, I wish to relay to the committee and the audience the high esteem we hold for our Congressman, the Honorable Jake Pickle. We trust his leadership abilities and are confident that this subcommittee will act responsibly in restoring confidence in the social security program.

I wish to direct my remarks to only two issues the spousal offset provision and mandatory social security coverage for State and local governmental entities. The two national council resolutions relating to these issues have been submitted with my written testimony.

Under present law, the social security benefit to which an individual is entitled as the spouse of a deceased worker will be reduced dollar for dollar by the amount of his or her pension benefit based upon employment by a State or local government. We strongly support Congressman Pickle's efforts in the last Congress to restore some equity to the present plan so that public employees are not penalized 100 percent for their public service.

Considerable discussion on this subject has centered around higher paid employees. Let me point out that the persons suffering the most from the offset provision in Texas are the nearly 60,000 auxiliary and food service employees in our public school systems. The offset will cause these lowest paid employees to lose up to one third of their expected retirement income.

Food service employees in Texas average approximately $6,000 per year salary, and can expect to receive this year, on the average, a retirement annuity of $195 per month after laboring 20 years over a stove. These employees are all females who, in most cases, have or have had a husband who had social security coverage, thereby entitling them under the old social security system to a spousal social security benefit. We hope your committee will recommend some restoration in the spousal benefit.

Even though mandatory coverage for State and local public employees was not contained in the list of recommendations of the National Commission on Social Security Reform, we know this topic is still a very hot issue. NCTR and TRS members believe mandatory coverage for States not presently under social security would create cost pressures in those States necessitating tax increases or ill conceived changes in benefits provided by the State systems.

Under current social security contribution rates, the Texas Legislature would have to raise approximately $300 million annually to meet the employer payments alone if current TRS benefit plans remain unchanged and social security is mandated for all of our public schoolteachers. Mandatory coverage would, in all practicality, cause the Texas Legislature to design an integrated pension system and greatly reduce member and State contributions to the State retirement plan in order to pay for the cost of social security.

It is my belief that even an integrated plan would require a tax increase. If taxes were raised to help finance mandatory coverage for all public school employees of Texas, the Federal Treasury would feel the effect because of deductions that would be claimed on individual tax returns.

In addition, if contributions were shifted from the State plan to social security, the national financial markets would soon start to feel the pinch. During the last fiscal year, the investments of the teacher retirement system included $85 million in Treasury and Government issues such as mortgages; $226 million went to help corporations finance their debts; $166 million was invested in home mortgage pools; and $389 million was invested in the equity markets.

The entire country supports Congress all out efforts to return social security to a sound financial position. Members of the National Council on Teacher Retirement and the teacher retirement system of Texas support your efforts to tackle this extremely important national issue.

Thank you for allowing me to appear before you today.

[Attachment to the oral statement follows:]

National Council on Teacher Retirement

MANDATORY SOCIAL SECURITY COVERAGE FOR PUBLIC EMPLOYEES

Whereas many retirement systems, based upon provisions of the Social Security Act permitting affiliation, have availed themselves of the provisions of that Act permitting integrated or coordinated plan coverage; and

Whereas other systems, in reliance upon the voluntary affiliation provisions, have elected not to participate in Social Security and have developed independent and excellent programs of retirement and related benefits; and

Whereas imposition of mandated Social Security upon such systems would create cost pressures, necessitating rapid and ill-considered changes in plan benefit design in such states, and possible abandonment of existing programs in such states; and

Whereas the inclusion of such systems would in no way alleviate the long-range Social Security funding problems; and

Whereas serious constitutional questions are raised by the imposition of mandatory Social Security coverage; and

Whereas the dual retirement systems in the United States, of Social Security plus adequate system supplement, are threatened by the trend toward a monolithic Social Security plan which would detrimentally affect retirement systems whether covered or not covered by Social Security; now, therefore, be it

Resolved, That the National Council on Teacher Retirement record its strong opposition to mandatory Social Security coverage for public employees of state and local government and that its legislative committee be given the responsibility of opposing such legislation; and, be it further

Resolved, That the National Council on Teacher Retirement continue to espouse the present law permitting affiliation on a voluntary referendum basis where teachers are permitted to vote their beliefs in the issue as it affects them; and, be it further

Resolved, That the National Council on Teacher Retirement opposes the repeal of the right of those retirement systems to withdraw from Social Security after due notice, based upon the constitutional and democratic principles outlined above; and, be it further

Resolved, That the National Council on Teacher Retirement communicate with the President of the United States expressing its appreciation, support, and commendation for the public position he has taken on this issue.

RESOLUTION FAVORING REPEAL OF THE SOCIAL SECURITY OFFSET PROVISION

Whereas Public Law 95216 of 1977 established a provision whereby the Social Security spouse's benefit for a beneficiary who is eligible for a benefit December 1, 1982 shall be offset by the amount for which the beneficiary is eligible; and

Whereas this offset provision is discriminatory to recipients under public retirement systems because it does not apply to recipients under private retirement systems; and

Whereas there is no legal or actuarial justification for offsetting benefits in one system based upon eligibility in another system provided they are both earned and funded in accordance with the legal requirements of each system; now, therefore, be it

Resolved, That the National Council on Teacher Retirement does hereby express its strong opposition in favor of repeal of the Social Security offset provision; and, be it further

Resolved, In the event that legislation to repeal or delay the offset provision is not accomplished prior to the effective date, December 1, 1982, the National Council strongly urge the 98th Congress to repeal said offset; and, be it further

Resolved, That a copy of this resolution be forwarded to each member of the Congress, the Secretary of Health and Human Resources, the Director of the Social Security Department, and to any other interested party or group.

Adopted at the Annual Meeting of the National Council on Teacher Retirement, October 8, 1982, Seattle, Washington

Chairman PICKLE. Thank you, Mr. Hineman, and I thank you for the personal reference and I want to observe before I recognize the next man that the social security system might want to borrow from the Texas teacher retirement system.

Mr. HINEMAN. Everyone else does. [Laughter.]

Chairman PICKLE. Thank you, Mr. Hineman.

Now, Mr. Zimmerman, we would be pleased to hear your testimony.

STATEMENT OF J. RICHARD ZIMMERMAN, ASSISTANT EXECUTIVE DIRECTOR FOR MEMBER BENEFITS, STATE TEACHERS RETIREMENT SYSTEM OF OHIO, AND CHAIRPERSON, CONFEDERATION OF NON-SOCIAL SECURITY SYSTEMS

Mr. ZIMMERMAN. Mr. Chairman and members of the committee, I am J. Richard Zimmerman, assistant executive director for member benefits of the State Teachers Retirement System of Ohio, and chairperson of the Confederation of Non-Social Security Systems.

I appreciate the opportunity to appear before this subcommittee to present the view of more than 30 public pension funds who are members of CONSSS who did not elect to be a part of the social security system when the option was provided in the 1950's, who have not decided to become part of the social security system voluntarily in the ensuing 30 years, and who do not want to become part of the social security system now.

The position of the confederation is that voluntary election of social security as a base for adequate pension income or supplement to such income has worked well for those States which have elected coverage. However, we feel just as strongly that those States which have developed excellent plans outside social security would find it difficult, if not impossible, to accommodate social security on a mandatory basis without doing irreparable harm to the existing programs that have been developed over the years to thousands of persons covered under those plans.

The question of mandatory social security coverage comes at a particularly inappropriate time. There is a great deal of discussion in Congress and other circles as to the future course of social security. During the term of President Carter and now during President Reagan's administration, recommendation for some cutbacks in the benefit programs have been made that certainly represent a direct change from the decision that benefits under the social security system are immune from any reductions.

At the same time, this is a question of future financing, whether or not to use general revenues, whether or not to split the social security program, financing some portion of it such as the medical program from general revenues and the pension portion from continuation of the social security taxes.

It is understandable that with the scenario that is developing that those of us who represent sound programs not covered by social security are concerned that existing programs may be curtailed or replaced by a revamped social security program that does not adequately address our problem.

There are three other points I would like to make. One, the voluntary nature of social security. When governmental employees were originally made eligible for social security coverage in the early 1950's, the legislation was designed to permit voluntary coverage since constitutionally Congress lacked the power to regulate the performance of traditional government functions of State and local government employees or to levy taxes on other branches of government.

That constitutional principle, to my knowledge, has not changed, and it seems to me that the imposition of mandatory social security is no less a violation of the Constitution today than it was 25 years ago.

Second, the emphasis on retirement for service rather than age. One of the principal reasons mandatory social security coverage would cause harmful results from the philosophical difference that exists between those public plans and social security. For example, our plan in Ohio emphasizes benefits based on the amount of service rather than age. Social security, on the other hand, is geared totally to age.

In Ohio, an individual with 30 years of service is entitled to full formula benefits regardless of age. Last year, 56 percent of our retired members qualified with 30 or more years of service. Attempting to fit that kind of a program into one providing benefits only at age 65 will undeniably result in benefit reductions.

Third is the effect on capital formation. At a time when our Nation suffers from a chronic shortage of adequate capital to promote its economic welfare, universal coverage threatens to drive one of the major sources of such funds. I think it is an accepted fact that social security, like other pay-as-you-go schemes, is a notorious dissaver. On the other hand, prefunded public retirement funds create pools of capital that are invested and provide jobs and promote the economic welfare of the country.

A dollar of contributions to a public retirement system, whether from an employee or employer, finds its way into the capital stream almost instantaneously. If in the fiscal year which closed June 30, 1982, the public employee systems in Ohio had been covered by social security, in excess of $1.75 billion would have been diverted into social security taxes rather than being invested quickly and directly into the American economy.

Surely there has to be a better way. We are encouraged by the report of the National Commission on Social Security Reform, which, as I am sure you are aware, did not recommend that State and local public employees be required involuntarily to participate in social security. We are confident that when this committee makes its recommendation it, too, will recognize the undesirability of mandatory social security for State and local employees and will not recommend that they be brought into the system involuntarily.

Thank you.

Chairman PICKLE. Thank you, Mr. Zimmerman.

Now, Mr. Carlson.

STATEMENT OF ROBERT F. CARLSON, PRESIDENT, BOARD OF ADMINISTRATION, CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Mr. CARLSON. Mr. Chairman and members of the subcommittee, good afternoon. My name is Robert Carlson. I am president of the board of administration of the California Public Employees' Retirement system. It is the California State agency that administers the Federal-State social security master agreement under section 218 of the Social Security Act. California has provided social security coverage to public employees pursuant to the agreement since 1951.

A little less than 50 percent of California employees of the State and local governments currently have social security coverage. As of the first of this year, we estimate there were 540,000 employees of the State and 2,500 political subdivisions with such coverage. For all practical purposes, with the exception of the University of California, the extension of social security coverage to new groups has been at a standstill over the past several years in our State.

I think it is fair to say, therefore, that essentially public employers in California who want to cover their employees under social security have already done so. The remainder are strongly opposed to mandatory coverage for a number of reasons.

Before I explain their reasoning, it might be worthwhile to take a look at the composition of the groups of employees without social security. The largest group consists of teachers; approximately 260,000 teachers are members of the California State Teachers Retirement System. Another large group consists of employees in public safety jobs, policemen, firemen, deputy sheriffs, and correctional officers.

The final large category that is identifiable are employees of cities, counties, and special districts who for the most part have extended retirement, disability, and survivor benefits to their employees under the public employees' retirement system, the 1937 county employees' retirement act systems, or via local independent retirement plans.

It is readily apparent to even a casual observer that the one common feature applicable to these three large groups, and to many smaller groups such as judges, is membership in a public retirement system with an excellent schedule of benefits. The first important point I would make, then, is that imposition of mandatory social security coverage would have a devastating effect on California public retirement systems and their members. Proponents of mandatory coverage brush this problem aside, saying that these systems can be modified to adjust to social security coverage.

The plain truth is there is no satisfactory way of combining social security with public plans covering policemen and firemen, where retirement between the ages of 50 and 55 is the most common practice. What do you do for them in the 10 years and more before social security benefits become payable?

I firmly believe that it is a waste of time to even consider extending social security coverage on a mandatory basis to safety members of public systems. For the other classes of members, adjustments because of social security coverage in these difficult fiscal times would result in plans of integration that would cause the public plans to be providing only a trace of the excellent formulas now in place.

Even with substantially reduced retirement, disability, and survivor formulas, the cost of a combined plan would be substantially higher for already overburdened taxpayers, given the current high and projected social security tax rates. I will definitely recommend to my fellow board members that we fight any such fiscal impositions up to the U.S. Supreme Court.

Others on this panel will discuss in more detail the unconstitutional aspects of mandated social security coverage, and the impact on the money markets if sums currently being invested by public retirement systems are not available for investment. I just want to say that I think the latter point is generally overlooked in discussions of mandatory coverage, but in California it will be a substantial blow to the business community.

It will mean that literally billions of dollars will be diverted from investments in stocks, bonds, real estate, and mortgage instruments, to be placed into the sterile, as far as investments in the private sector are concerned, social security funds. The retirement funds withdrawn would amount to over $1.5 billion a year.

The final point I would make today is that many States feel very strongly that they have a vested contractual right to extend social security coverage to their public employees on a voluntary basis. They resent very much the attitude that representations and written agreements made by the Federal Government at the time the basic Federal-State social security agreements were entered into can be cavalierly put aside at a later date.

As I said in the beginning, the amount of voluntary coverage may have peaked, but it is still substantial. I suggest that before the Congress considers any proposal to mandate social security coverage on State and local governments, it would be very much worthwhile to establish why such coverage is no longer attractive on a voluntary basis, and to correct the many negative aspects that have crept into the program, at least from a public employer's viewpoint.

Thank you for the opportunity to share these thoughts with you.

Chairman PICKLE. We thank you, Mr. Carlson.

Now we would ask Mr. John Jennings if he would give his testimony.

STATEMENT OF JOHN J. JENNINGS, TRUSTEE, INTERNATIONAL ASSOCIATION OF FIREFIGHTERS, AND SECRETARY-TREASURER, PROFESSIONAL FIREFIGHTERS OF MASSACHUSETTS

Mr. JENNINGS. Mr. Chairman and members of the Social Security Subcommittee, my name is John J. Jennings and I am an active Boston firefighter. I have been a firefighter since my appointment to the Boston Fire Department on April 9, 1947. I would like to take this opportunity to express my thanks to the Social Security Subcommittee for allowing me to speak before you today and offer you my opinion why the International Association of Firefighters are opposed to mandatory coverage of social security.

Let the record show that the International Association of Firefighters is not opposed to voluntary coverage. I am here today as a trustee of the International Association of Firefighters. As a trustee I represent approximately 100,000 firefighters from 27 States and the District of Columbia. However, today I am speaking for the more than 150,000 firefighters in the United States.

The position taken by the International Association of Firefighters being opposed to mandatory coverage is neither arbitrary nor capricious in nature. I would respectfully point out to this committee that this position has not been formulated since the creation of the universal social security coverage study, nor since the Fisher amendment study. As a matter of fact, the fight being waged by the International Association of Firefighters to oppose the inclusion of firefighters under social security commenced before some of the members of this subcommittee were born.

On August 14, 1940, U.S. Senate bill No. 4269 was introduced by the late Senator Wagner to provide for the inclusion of all State, village, and municipal employees and any instrumentality thereof into the Federal Social Security Act.

The delegates who were attending the 15th convention of the International Association of Firefighters which was being held at that time in Des Moines, Iowa, in 1940 adopted a resolution to amend the bill being offered by the late Senator Wagner, Senate 4269 and the McCormack bill, H.R. 10384, to exclude from its provisions those public employees of States, counties and cities who are now or who may become participants in pension or retirement systems operating under State law.

The delegates to the 15th convention arrived at this conclusion after having discussed and debated the issue at length and after having worked faithfully, carefully and with an openmindedness to determine if it were possible to coordinate our pension systems with social security. The delegates believe insofar as firefighters and police officers were concerned, this was not possible for the following reasons.

One, the age provisions for maximum benefits in most of our retirement systems are lower than those offered by social security. Under Massachusetts retirement laws, this is the system of which I am a member, superannuation retirement is based on age, plus years of service and final average 3 years' salary.

The professional firefighters of Massachusetts are seeking to amend this law and have a superannuation retirement based on years of service and not age, the rationale being that a firefighter is burned out after 30 years of service. This is due in part to the increased work loads, coupled with the decreased manning levels of firefighters assigned to fire companies.

Two, the hazards of firefighting are completely ignored under social security. Today's firefighter is literally confronted with danger from within and without. Today's firefighter works in the most hazardous occupation in the United States. Permit me to quote in part from the report of the National Commission on Fire Prevention and Control, entitled "America Burning."

> Their death rate is 15 percent greater than the most hazardous occupations, mining and quarrying. In 1971, the injury rate for firefighters was 39.6 per 100 men, far higher than those of any other profession. That same year, 175 firefighters died in the line of duty. An additional 89 died of heart attacks, and 26 more are known to have died of lung disease contributed by the routine smoke hazard of their occupation.

Unfortunately, firefighters remain far ahead of all other occupational death rates making firefighting the most hazardous occupation in North America. I respectfully submit to you that the dangers confronted by today's firefighter, such as highrise buildings, the ubiquitous use of known carcinogens such as polyvinyl chloride and polychlorinated biphynels, the alarming rise in arson fires and, sad to report, the harrassment being encountered by firefighters responding to, working at, and returning from alarms of fire was not the case when those men of good and honest intent back in 1940 were opposed to the inclusion of firefighters under social security.

Third, the third and final objection voiced by the delegates to the 1940 convention was the lack of survivor benefits for widows and children. I would like to address myself specifically to the case of my late dear brother, Firefighter Robert M. Greene, of Ladder Co. No. 23, Boston Fire Department, who died on November 27, 1978, of injuries he received fighting a fire on November 25, 1978.

Firefighter Greene left behind a widow and four children. Mrs. Greene was 49 years of age and the four children ranged in age from 21 through 26. If the late Firefighter Greene had been under the social security system, Mrs. Greene would not receive any benefits from social security until she had attained age 60. It is for this very reason that most States have enacted special benefit structures for firefighers, so that our widows will not be left penniless in certain cases.

Since Boston Firefighters Local No. 718 was formed on April 17, 1942, 410 active firefighters have passed away. Sixty-eight of these men died in the line of duty. I do not know how many of the widows were left in the circumstances of Mrs. Greene.

In closing, Mr. Chairman and members of the Social Security Committee, let me say that the position of the International Association of Firefighters is that no firefighter be placed under social security, whether they be State, local or Federal firefighters. AFL-CIO President Lane Kirkland is opposed to mandatory coverage of newly hired Federal and postal workers as being recommended by the Social Security Commission.

The International Association of Firefighters pray that the Congress will not seek to substitute social security benefits for those retirement benefits enacted by both State legislatures and the Congress, who recognized the dangers of firefighting.

In closing, Mr. Chairman and members of the committee, I would like to point out that with me today is our legislative representative, Mr. Harold Schaitburger who will be submitting a detailed, comprehensive report, on the National Commission on Social Security Reform recommendations with the International Association's positions and recommendations. Thank you for hearing me.

Chairman PICKLE. Thank you, Mr. Jennings.

The Chair will take the prerogative of first questioning. Mr. Hineman, since you first mentioned the question of the offset, this committee and the Members of the Congress were pleased that we were able to get an amendment in the Congress in the last days of this last session to give some relief in the offset area.

That question was not addressed in the Commission's report to the Congress. Many of us on the committee, though, feel that somehow we ought to address that question in this legislation, if possible. We do not know that that is a possibility, but we are mindful that that problem has been helped by extending to June, and between now and then, if we do it, we must take action.

So we are very mindful of it and I appreciate it that you would mention it, because I can see that it would be of help to a lot of groups, particularly teachers, and to the lower paid wage earners, such as your food service people. And we are hoping that we can give some additional continuation of relief in that area, so I am glad you mentioned it.

Now, the question I want to ask all of you gentlemen is this. We are going to have to assume that the Congress is going to pass this bill or something nearly like it, and we will get this through soon to shore up the social security system.

Under the present law, your organizations are able to join social security or not. You have that option. You still have that and that is not touched in this bill, and you are asking that you not be forced under it. Let us assume that, since that was not recommended by the Commission, no change in that, that you basically will not be affected.

I do ask you this, though. Would you think it might be well, just since there would be no obligation on your part, for the committee to consider putting an amendment in this legislation that would say to those organizations which have chosen to get out of social security that they might have the right or choice to come back in at some later date if they wished?

Under the present law now, once out they are always out. Do you think it might be reasonable to put a provision in there that would not affect your groups, in essence to at least give them the option of coming back later, those which had chosen to come out? Do you have any feelings about that approach?

Mr. HINCE. Mr. Chairman, I have a feeling about that. Right now I have the option. If the majority of my group decides to go into social security, I have an option to be in or out. I do not see why that rule would not be applied to everybody in the United States.

Chairman PICKLE. My question, though, more specifically: Under the law, once an organization chooses to get out they cannot come back in. I am asking you, would it be well for us to put a provision in there that under the new arrangement they could come back in if they so chose?

Mr. HINCE. I think they should be allowed to go in, just the same thing as I can do, either in or out at their pleasure, several times if necessary.

Chairman PICKLE. Well, you lost me there.

Mr. HINCE. One of the things that I have seen in the past, being a labor person, some organizations use the threat of going in or out of social security as a bargaining, a labor management bargaining device. The threat is that if you do not sign for what I am offering you, we will not let you in the pension system any more. And I do not think that is fair from a labor management negotiating proposition.

I think if any of us are allowed to be in, we should be allowed to go in or out at our pleasure.

Chairman PICKLE. Mr. Hineman.

Mr. HINEMAN. If that would have no adverse actuarial effect on the system, it might be advisable. But let me point out, in Texas we have a program that college full-time professors can go into in lieu of teacher retirement, called an option retirement program, and when that was established it was pointed out that if you allowed them to, as one system became better and another one went down and like this and you gave the choice constantly to go back and forth, then they would choose if this system was better, that was going to have a very serious actuarial consequence on our system.

I cannot help but believe that that proposal might not have an adverse effect on the social security system. I do not think you want to add more liabilities to it now.

Chairman **Pickle**. No. I would have some questions allowing you to just come in and out, back and forth. I think you must be in or out, or otherwise from an actuarial standpoint you could not make any accurate estimates.

Well, I do not say this is something we are going to do. We are just trying to see what would be the fairest thing as we proceed on it.

Yes, Mr. Mustoe?

Mr. **Mustoe**. I think in Missouri, if there again were no adverse effect, we would not object to it. I would echo much of what Mr. Hineman said, however. I think philosophically there is a problem in having groups in and out, and for the reasons he set forth, the antiselection factor. You are in if it is good, you are out if it is bad.

It seems to me philosophically, to run a sound retirement program you have to have some things you can depend upon.

Chairman **Pickle**. Mr. Gephardt.

Mr. **Gephardt**. I have no further specific questions. I thank all of you for being here, and especially my friend from Missouri for coming up here and giving your testimony. It is very helpful to have it. Thank you very much.

Mr. **Mustoe**. Thank you.

Chairman **Pickle**. Mr. Jacobs.

Mr. **Jacobs**. I have no further questions, except to acknowledge again the remarks that were made by Chairman Pickle concerning the offset provision. It is definitely a problem I think every member of the subcommittee is interested in. I do not know whether you saw, and I am trying to remember whose formula it was, but I believe it was a member of the subcommittee in a previous Congress, who proposed something along the lines of a progressive offset.

Have you seen that? What did you think of that?

Mr. **Hineman**. We were pleased with it. That was a positive step.

Mr. **Jacobs**. It looked pretty good to me.

Mr. **Hineman**. Yes, it was.

Mr. **Jacobs**. If they were doing very well, there would be a little more offset, and then when you come down the scale where someone is hurting there is no offset at all. I think that is not a bad idea.

I thank the panel for its time.

Mr. **Gephardt**. Thank you all very much.

Our next panel is: Mr. Bannister with the National Association of Home Builders; Mr. Schultz of the American Society for Personnel Administration; Mr. Leffler with the National Council of Salesmen; Judy Goshy with the Society of Automotive Engineers; Mr. Dye; Mr. Ruttenberg; and Mr. John.

Would they please come forward.

[Pause.]

Mr. **Gephardt**. Again, the next panel is Mr. Bannister, Mr. Schultz, Mr. Leffler, Judy Goshy, Alan Dye, Stanley Ruttenberg, and Mr. John. Are any of those people here?

[No response.]

Mr. **Gephardt**. Not seeing any of those individuals, could I call the last panel. Perhaps some of them are here. Mr. Davidson, Mr. Kimmelman, Mr. Greenberg, Mr. Haislemaier, Mr. Robertson, and Mr. Harris. Are any of those individuals here?

[No response.]

Mr. **Gephardt**. Why do we not take a recess, to try to determine what happened to our next panel.

[Whereupon, at 12:40 p.m., the subcommittee was recessed, to reconvene at 2 p.m. the same day.]

AFTERNOON SESSION

Mr. **Anthony** [presiding]. The Social Security Subcommittee will come to order.

Our leadoff witness this afternoon is Representative Ike Skelton from Missouri. Mr. Skelton, the ground rules according to our chairman, Mr. Pickle, is for your statement to be accepted into the record in full and have a 5-minute limitation for you to summarize your testimony, and then questions from the panel. So welcome to our committee and your entire statement will be introduced for the record, and you are now recognized to summarize as you wish.

STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. **Skelton**. Thank you. I will not take the full time, but I do want to thank you for the opportunity to testify on this very important issue of social security and insuring a sound social security system.

The first point I would like to make is, it is important to find a fair, lasting solution to the financing problems which we have today and which are predicted ahead, and in this way we want to make sure that social security is going to be with us. And we are going to make every effort, I know, to make sure that that comes to pass.

Now, as a Representative from Missouri, my district has one of the largest senior citizen populations, and I have taken an active and personal interest in the financing of the social security system since coming to Congress in 1977. I have made several proposals and I would like to mention that two of my proposals have been included in the recommendations of the National Commission on Social Security Reform.

The first, Mr. Chairman, is my proposal to reimburse the social security trust funds from the general fund of the Treasury for uncashed social security checks. I introduced legislation on this last year. It is estimated that this simple action alone would provide the social security trust fund at one time between $300 million to $600 million. Mr. Chairman, I might also point out, it is my understanding that we will probably save about $30 million per year by letting this, what I would call dead money, actually be transferred over as it should be.

Second, the Commission recommends removing the operations of the social security trust fund from the unified budget, or at least displaying them within the present unified budget as a separate budget function. I suggested this back in 1981, and I think we should make note of the fact that it was put into the budget, obviously, back in the 1960's to make it look better than what it really was. And I think it always was, up until that point, off the budget and should be off the budget today.

Last spring, on a third issue, I obtained a Justice Department memorandum which revealed that the social security computer system is totally vulnerable to fraudulent manipulation by its lower level employees, and that memorandum found some very damaging items. I introduced legislation that would help solve the social security fraud problem. I think that this is something that we can take heed of and pass.

Also, the social security computer systems are not designed to provide an audit trail to track down employees suspected of defrauding the system and no antifraud measures are in effect and none are being planned.

I would recommend very strongly, Mr. Chairman, including in the social security work that you do a system to make sure that the computerization of the social security system has better security and that it may not be drained. There are a handful of cases that have been litigated and I am told by the Justice Department that this is only the tip of the iceberg.

Right now is the time to do it. It actually would end up saving literally millions of dollars. One person drained almost $500,000 through the manipulation of the computerization to her own benefit. Seven others have been convicted, and a great deal of money is being drained off there.

Finally, Mr. Chairman, I have written Chairman Rostenkowski urging all Members of Congress, the President and members of the Cabinet be included under social security. It is my belief that Congress should share the responsibility of maintaining the health and independence of the social security system.

Furthermore, I think it would be reassuring to the Nation to know that not just the Congress, but the administration and his Cabinet, also be included in the social security system.

Those, Mr. Chairman, are my brief remarks. I ask unanimous consent that my entire statement be placed in the record as prepared.

Mr. ANTHONY. It will be accepted in full.

[The prepared statement follows:]

STATEMENT OF HON. IKE SKELTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Mr. Chairman and Members of the Committee, thank you for allowing me to testify today on one of the most important issues to be considered by the 98th Congress—ensuring a sound Social Security system.

The first point that I would like to make is the paramount importance of finding a fair and lasting solution to the financing problems which are with us today, and are predicted for the years ahead. Because the answer will involve every man and woman, young and old, in our nation, we will all be called upon to compromise and possibly even make some sacrifices. I believe, however, that if we reflect on what Social Security is all about—the promise of dignity and sustenance in our old age which no other nation can match—we will see that Social Security is worth our every effort.

As a Representative from Missouri, a state with one of the largest senior citizen populations in our country, I have taken an active and personal interest in Social Security financing problems since coming to Congress in 1977. I was pleased, therefore, when the National Commission on Social Security Reform included two of my recommendations in its final report.

The first of these was my proposal to reimburse the Social Security Trust Funds from the General Fund of the Treasury for uncashed Social Security checks. I had introduced legislation to do just that last year. It is estimated that this simple action alone would provide the Social Security Trust Funds with $300-$600 million dollars without requiring any payroll tax increases for American workers or benefit reductions for retirees. It seems to me that if we are going to ask the people of the United States to have faith in Social Security, the least we can do is assure that their money is well managed. This provision is a step in the right direction.

Secondly, the Commission recommends removing the operations of the Social Security Trust Funds from the unified budget or at least displaying them within the present unified Federal budget as a separate budget function, apart from other income security programs. I had suggested this in 1981. It is important that we not perpetuate the illusion that Social Security expenditures are part of other Federal expenditures. Social Security must never be lumped together with welfare programs, nor must cuts in benefits be made just to make the balance sheet of federal expenditures look good.

I urge the Committee to favorably consider these provisions of the Commission's report. I addition, however, I hope that you will take under advisement two other recommendations I have offered.

Last spring, I obtained a Justice Department memorandum which revealed that the Social Security computer system is "totally vulnerable to fraudulent manipulation by lower level employees with only rudimentary knowledge." That same memorandum found that: there is no group within the Social Security Administration whose job it is to detect or deter employee fraud; employee manuals and training sessions freely disseminate the information necessary to accomplish fraud; the absence of any controls to insure the integrity of the input and the practice of returning questionable files back to the person who committed the fraud is an invitation to abuse the system; SSA management is oblivious to the possibility of fraud; Social Security computer programs are not designed to provide an "audit trail" to track down employees suspected of defrauding the system; and no anti-fraud measures are in effect and none are being planned.

It's obvious that Social Security computer crime can be draining the system of untold millions of dollars. Eight cases of employee fraud, totalling $383,566, have resulted in convictions since 1978, yet the General Accounting Office has told me that it is impossible to estimate the amount of money being lost through embezzlement schemes that haven't yet been discovered.

I have introduced legislation to provide a mandataory minimum jail sentence of 3-10 years without probation and a fine up to $50,000 for persons convicted of destroying, altering or abusing the Social Security computer system. At the present time there are no federal laws that specifically address problems relating to the safety of the Social Security computers. I hope that your Committee will consider the provisions of this or similar legislation.

Finally, I have written Chairman Rostenkowski uring that all Members of Congress, the President, and Members of his Cabinet be included under Social Security. It is my belief that Congress should share in the responsibility maintaining a healthy and dependable Social Security system. Furthermore, I think it would be reassuring to the nation to know that Congress and the Administration have a stake in protecting Social Security.

Once again, thank you for your time and attention. I look forward to working with you for a strong and reliable Social Security system.

Mr. ANTHONY. Mr. Skelton, we thank you for your testimony, and as always you are on the leading edge on the thinking in the areas that need correction. Hopefully, the full committee and the Congress can address some of these important issues that you have talked about and that you have already acted on personally by previously having introduced legislation.

I must say, on the fraud part and as far as updating the computer system, that I think the public has already been exposed through television shows about how antiquated the social security is as far as its computer program is concerned. I know that this is something that we talked about in the budget process as long ago as 1981, so maybe it is now time that we fix it.

Mr. SKELTON. Well, it certainly is. And something along this line that is just as important, there are those that for one reason or another that work in the social security computer area, that for one reason or another that you and I would probably not understand commit sabotage, do damage, erase tapes, turn the air conditioning off in the computer rooms vandalism, which has a horrendous effect. If you erase an entire tape, what is going to happen?

I introduced legislation that would create a 3-year minimum mandatory sentence on this without parole, and I think if they know that Congress means business on this we will stop that type of activity. There is no excuse. One person ended up getting a $9,000 check when in truth and fact she was only entitled to a several hundred dollar check, because of the social security vandalism that went on, causing the wrong checks to be sent out.

Mr. ANTHONY. Well, this may be a good opportunity for Mr. Jacobs to tell you about his special project. He thinks that all employees under the social security system should be made members of the social security system immediately, thinking that if they were members of the system that they may then take a little bit better care and caution in how they operate the system.

So maybe you and Mr. Jacobs can get together and finalize some thought on that.

Mr. SKELTON. Thank you.

Mr. ANTHONY. Mr. Jacobs, since I did mention your name, would you like to respond?

Mr. JACOBS. Mr. Chairman, the rumors of my advocacy are greatly exaggerated. That was the fellow down there the other day who advocated that. I am just against vandalism. Anything we can do to curb it, I think we ought to do.

I thank my colleague, and like every other member of this committee I definitely like Ike. Thank you.

Mr. ANTHONY. Mr. Thomas, do you have questions?

Mr. THOMAS. No, Mr. Chairman.

Mr. ANTHONY. Mr. Gradison.

Mr. GRADISON. I have nothing, Mr. Chairman.

Mr. ANTHONY. Thank you, Mr. Skelton.

Mr. SKELTON. Thank you, Mr. Chairman.

Mr. ANTHONY. Our next witnesses will be a panel composed of: Mr. Robert Bannister, vice president, government affairs, representing the National Association of Home Builders; Mr. Marvin Leffler, chairman of the board, National Council of Salesmen's Organizations, Inc.; Judy Goshy, personnel manager of the Society of Automotive Engineers; Alan P. Dye, counsel of the National Child Safety Council; Stanley H. Ruttenberg, consultant, National Maritime Engineers' Beneficial Association; Walter John, executive director, Organization of Professional Employees of the U.S. Department of Agriculture.

And for the convenience of the committee, we have already put some names in front, so that it would better assist us in recognizing the particular witness.

Under the rules that have previously been established, as I am sure you have already heard the chairman say, each witness is being permitted 5 minutes to give their testimony, either in summary form or reading the entire testimony. The entire testimony will be accepted for the record.

It would be beneficial if you could stay within the 5-minute timeframe, so that you could leave an opportunity for questions from the members of the subcommittee, so that we could have a dialog and better explore the nature of your testimony.

We will go in the order in which the names were read. So Mr. Bannister, we will let you lead off.

STATEMENT OF ROBERT BANNISTER, SENIOR VICE PRESIDENT, GOVERNMENT AFFAIRS, NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. **Bannister**. Thank you. Mr. Chairman and members of the committee, my name is Bob Bannister and I am the senior vice president for the National Association of Home Builders. I am testifying today on behalf of the 107,000 members of the National Association of Home Builders. As you know, NAHB is the trade association that represents the housing industry.

We appreciate this opportunity to present our views on proposals to provide for solvency of the social security system. I might say at the outset, Mr. Chairman, that we do not claim to be experts on the issue of social security, but we do feel compelled to come before you and respond to this important national issue. It is directly related to our deficit problem and translates into high interest rates, which so adversely affect the housing industry.

My summary statement is of a larger written statement, which I would appreciate being included as part of the hearing record.

The recommendations of the National Commission on Social Security Reform must be viewed as a positive and constructive contribution to a resolution of the impending financial crisis confronting the social security system. The recommendations of the Commission were a compromise, steering a middle ground between an approach relying primarily upon tax increases as opposed to benefit changes.

As a package, the National Association of Home Builders recommends and supports the recommendations of the Commission. We applaud the bipartisan nature in which this report was presented.

NAHB's support for the work of the Commission does not stem from the belief that it solves all the problems or that the direct effects of the recommendations will be totally positive. The Commission's recommendations place a heavy emphasis upon tax increases to meet the social security's current financial difficulties, with which we have some concern.

The payroll and self employment tax increases are basically a tax, which will result in higher labor costs, and these costs will be ultimately passed on to the consumer, including the American home buyer.

In addition, the Commission has failed to develop an approach to provide for long-term solvency of the social security system. However, the Social Security Commission has taken tremendous strides in both identifying the problems confronting social security and in developing a responsible and workable solution.

Acceptance by Congress of the basic elements of the Commission's report will have a positive effect in demonstrating to the public and the financial community that Government can function to resolve pressing national concerns in a responsible bipartisan manner. Public confidence in the stability of the political system is essential at this point in our current economic situation. Consumer confidence is a necessity for growth in the homebuilding industry. Part of this consumer confidence is in our Government's ability to keep promises.

In addition, resolution of the social security problem is essential to calm the fears of those who depend upon the system.

The action of the Social Security Commission and congressional adoption of its recommendations will, we believe, help in reducing enormous budget deficits. Without such action, these deficits will inevitably lead to higher interest rates, which will be catastrophic to not only the homebuilding industry, but to the home buying public.

Finally, the recommendations of the Commission provide a springboard for bringing fiscal sanity into our entitlement programs. A scaling back of cost-of-living adjustments and Federal Government entitlement programs are a necessity to gain control over the Federal budget.

In addition to acting to resolve social security's short-term difficulties, NAHB urges Congress to act now to resolve its long-term problems as well. Failure to do so will only leave questions in both the minds of workers and retirees about the soundness of the social security system.

Specifically, NAHB makes the two following recommendations: First, Congress should gradually increase the present retirement age under social security. This will bring social security more in line with actuarial reality.

And No. 2 is, the method of indexing benefits should be revised to be the lesser of wages or prices. The current method ties benefits to the Consumer Price Index. Criticism of the procedures in computing the CPI on the ground that it has overemphasized housing costs in the past resulted in changes in the CPI to a rental equivalency. This, however, could boomerang in the future if rent increases pick up.

The difficulties with the CPI underscore the need to provide for a more flexible and realistic index. Since wages and not prices are the base for which contributions to the system are made, Congress should consider revising the indexing formula to index benefits to the lesser of wages or prices.

In summary, Mr. Chairman, NAHB urges the Congress to resolve the impending fiscal crisis confronting social security. We applaud this committee and its chairman for promising early action.

The recommendations of the Commission provide an acceptable package for a short-term answer to confronting the social security problem. It is critical, however, that in addition to solving these issues the Congress also take this current opportunity to resolve long-term problems confronting social security.

The opportunity to establish a financially sound social security system over the long term should not pass. We should not wait for another Congress to resolve another social security crisis.

NAHB welcomes the opportunity to work with this committee and its fine staff in fashioning a workable program for social security. Thank you.

[The prepared statement follows:]

STATEMENT OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

Mr. Chairman and members of the committee, my name is Robert D. Bannister, and I am Senior Staff Vice President of the National Association of Home Builders. I am testifying today on behalf of the more than 107,000 members of the National Association of Home Builders, (NAHB). NAHB is a trade association of the nation's home building industry.

I appreciate the opportunity to present our views on proposals to provide for the solvency of social security.

I. INTRODUCTION

The recommendations of the bipartisan National Commission on Social Security Reform must be viewed as a positive and constructive contribution to a resolution of the impending fiscal crisis confronting the social security system. The recommendations of the Commission were a compromise, steering a middle ground between an approach relying primarily upon tax increases as opposed to an approach relying upon benefit changes. Some elements of the Commission Report, particularly a delay and scaling back of cost of living adjustments (COLAs), NAHB has advocated not only for social security, but also for other indexed entitlement programs. NAHB would not have recommended other elements of the Report. But, as a package, because of the need to develop a bipartisan consensus and take the steps necessary to provide for the continuing solvency of social security, NAHB endorses the recommendations of the National Commission.

NAHB's support for the work of the Commission does not stem from the belief that the immediate, direct effects of the recommendations will be totally positive. To the contrary, the Commission's recommendations place a heavy emphasis upon tax increases to meet social security's current financial difficulties. The payroll and self-employed tax increases, which are basically a tax upon labor, will result in higher labor costs, which will ultimately be passed on to the consumer of American goods, including the new home buyer. In addition, the Commission has failed to develop an approach to provide for the long term solvency of social security. Nor has the Commission fully remedied the overly generous benefit promises which were made in the past and which brought social security to the difficulty which it now faces.

Despite these inadequacies, the Social Security Commission has taken tremendous strides in both identifying the problem confronting social security and in developing a responsible and workable solution. Acceptance in the Congress of the basic elements of the Commission's report will have a positive effect, which will far outweigh its shortcomings. Congressional action will demonstrate to the American public and the financial community that government can function to resolve pressing national concerns in a responsible, bipartisan manner.

Public confidence in the stability of the political system is essential at this point in our nation's economic development. Optimism about the economic future is essential if we are to have a sustained economic recovery. Consumer confidence is a necessity for growth in small business. Part of consumer confidence is confidence in our government and its ability to provide for essential programs and to keep its promises.

In addition, resolution of the social security problem is essential to calm the fears of the elderly, those who depend on social security. The action of the Social Security Commission, and Congressional adoption of its recommendations will help in reducing enormous federal budget deficits. Without such action, budget deficits will inevitably lead to higher interest rates.

Finally, the recommendations of the Commission provide a springboard for bringing fiscal sanity into other entitlement programs. A scaling back of cost-of-living adjustments and federal government entitlement programs are a necessity to gain control over the federal budget. NAHB applauds the President in extending the recommendations of the Commission to other indexed programs.

II. SURVEY OF HOUSING INDUSTRY AND EFFECT OF SOCIAL SECURITY REVISIONS ON HOUSING

Housing is now beginning to come out of its worst downturn over the past three years since the Great Depression. Housing is a highly interest sensitive industry. High interest rates, created by an overly restrictive monetary policy colliding with an expensive fiscal policy, have devastated the housing industry. While unemployment rates nationally hover above 10 percent, the annual unemployment rate among construction workers for 1982 was at 20 percent. NAHB's membership has declined from a peak of over 125,000 members in 1978 to approximately 108,000 currently. But, the current view of home builders today is optimism. The prospects of lower interest rates, along with declining inflationary expectations, have created the conditions for an economic recovery and a rebound in home building and home sales.

However, there is continuing concern over the prospects of large federal deficits and the large unemployed labor force. It is essential that the Congress and the Administration take steps to restore national confidence and extend to the consumer the optimism which our members feel. The ability of our government to deal with our nation's financial affairs and preserve the financial security of social security is an important element in restoring this confidence. This is the single most important contribution which a resolution of the social security issue can provide. A review of the home building industry from NAHB's perspective is important in arriving at a conclusion about the immediate effects of the Social Security Commission's proposals upon homebuilding.

The construction industry is vast and complex. The industry employs million of people directly and indirectly. It is the sum of activity in land development; the use of materials and equipment; and the fabrication, alteration, repair, and maintenance of immobile physical structures. The wide variety of construction ranges from the laying of underground utilities to the building of skyscrapers for residential and commercial use to the building of small townhouses and residential subdivisions.

Any change in the construction industry is felt by thousands of builders, subcontractors, distributors and suppliers, and millions of consumers.

Local markets are the basis for construction. Housing is built based on the demand in individual areas. Demand for houisng, office space, schools, and churches in an area cannot be transferred outside of that general area.

The industry does not have any giants like General Motors or Ford. Probably there never will be. In 1982, the largest home building firm in the country started less than 1 percent of the total national housing starts. The industry is composed of a large number of small firms. The Census of the Construction Industry data published for 1977, 1972 and 1967 show how small an average builder firms is and the extent of decentralization of the industry.

Although NAHB membership includes about 40 percent of the builders in the country, it covers about 75 percent of the housing starts.

The diversification of builders into other construction-related (and into many nonconstruction-related) fields is in direct response to the nature of the construction industry. The striking changes in volume caused by frequency of changes in money flows into capital investment and the high long-term interest rates forced builders to enter many fields of construction activity rather than restricting themselves to one type of operation. There are significant changes in the operation of builder firms during the last decade and particularly during the last five years.

Looking at the composition of the home building industry in more detail, the first observation is that most home builders operate in the corporate form. Over 75 percent were organized as corporations as of October 1982. Compared to this, 67 percent were organized as corporations during 1967. The percentage of sole proprietorships has declined from 25.4 percent in 1976 to 20.1 percent in October 1982. The percentage of partnership firms has not changed significantly during the last five years.

FORM OF BUILDING FIRM OWNERSHIP

[Percent]

	1969	1976	Oct. 1978	June 1979	June 1980	May 1982	Oct. 1982
Corporation	45.5	67.0	67.3	67.8	69.8	73.6	73.6
Sole partnership	36.9	25.4	25.3	24.9	23.3	20.4	20.1
Other (Partnership and joint venture)	17.7	7.7	7.4	7.3	6.8	6.0	6.3

Source: NAHB Economics Division.

Most of these builders are small, both in terms of volume and in terms of employees. The percentage of builders starting fewer than 25 units has increased from 64.5 percent in 1976 to 72.6 percent in 1982. In addition, 53.5 percent of the builders in 1982 had a volume of less than 10 units. In terms of employment, in January through April 1982, 77.2 percent of NAHB's members employed less than 10 employees. Only 1.7 percent of the members employed over 100 persons.

Employment by Homebuilders

Employment by size of homebuilder:	1982
Less than 10 units	77.2
11 to 25	13.5
26 to 100	7.5
Over 100	1.7

Source: NAHB Economics Division.

While NAHB's members often have few employees, they do rely extensively on subcontractors. Many of these subcontractors are self-employed individuals performing one phase of the overall construction process.

The increase in the employer-employee tax will affect home costs. Generally, the cost of a new home includes the following elements:

New Home Sales—Percent of Total Costs

Item:	
Financing	12
Overhead and profit	16
Labor	16
Land and development costs	23
Materials	33
Total	100

Looking only at the labor component, which is 16 percent, it is estimated that acceleration of employer-employee taxes, only, will increase costs for employers in 1984 by $118. The impact of the 1988 and 1989 tax increase is approximately $200 for a single family unit. This is the direct labor costs and does not include higher labor costs associated with other service components and increased labor costs for materials involved in home construction.

For multifamily construction, the cost is estimated to be $55 per multifamily unit in 1984 and $100 per unit in 1988 and 1989.

Higher unit labor costs also could indirectly affect the employment of construction workers. The trends towards automation, as in other industries, is also evident in home building. Greater use of labor saving devices could be accelerated by the increased taxes associated with social security. While this is a positive trend in terms of productivity, it does lead to short term structural problems as fewer workers are rehired.

In addition, because most home builders are small businessmen, and the corporate income tax is graduated, the deductions associated with increased payroll taxes for employers are not as significant as those for the large business. Therefore, the burden of increased social security taxes falls most heavily on the smaller builder who most needs additional cash and capital to keep the business afloat and to grow.

This same difficulty is magnified for subcontractors, many of whom are self-employed. The increase in the self-employed social security tax, which the Commission recommended, will fall most heavily on the small self-employed individual and subcontractor. This small businessman, generally, is in a low marginal tax bracket. Therefore, the Commission's proposed deduction for 50 percent of the self-employed tax will not compensate most self-employed individuals for higher social security taxes.

In summary, the immediate effects of the proposed changes in the tax area will be negative. Higher taxes will be mildly inflationary and will hit the small builder and subcontractor the hardest. The psychological effect of increased taxes upon workers will also be negative since most workers do not enjoy the benefits of indexed wage increases and are concerned about the current level of payroll taxes.

Despite these negative aspects, the overall effect of the social security recommendations must be viewed as positive.

Briefly, these positive elements are:

A bipartisan consensus on a matter of national concern which must be resolved within the next several months.

A reduction in future federal deficits.

A starting point to provide for the long financial stability of social security.

A framework for limiting COLA increases in other progams.

III. ANALYSIS OF COMMISSION REPORT

In general, looking at the work of the National Commission on Social Security Reform, the final product which the Commission drafted must be given high marks in face of the adversity confronting the Commission. There are many elements of the compromise which NAHB would oppose if viewed in isolation. However, as a package, the Commission Report can be viewed as a workable solution to the immediate short term problems confronting social security.

It must be clearly understood, however, that the Commission's Report does not solve the financing problems confronting social security forever in the future. To the contrary, to adopt the Commission's Report ensures that Congress will be revisiting social security and the conflicting solutions to its funding problem in the future. Furthermore, the Commission ignored looming problems confronting the Medicare program.

NAHB urges Congress to use the Commission's Report as a stepping off point to address long term problems which the Commission does not resolve. The Commission found a long term actuarial imbalance of 1.82 percent of taxable payroll. Its recommendations address a good portion but not all of this shortfall. At this critical point, Congress should develop a long term solution for social security. NAHB joins with other members of the business community in seeking to work with this Committee and the Congress in developing a reasonable and acceptable approach.

Looking at the specific elements of the Commission's Report, some of its recommendations follow NAHB's statement of policy which is Appendix A of this testimony. NAHB favors a delay in the automatic cost of living adjustments of OASDI benefits until December 1983 and a calendar year COLA for years thereafter. Changes in the cost of living adjustment for social security are essential. While the delay in COLA benefits fails to deal with the fundamental question of whether or not benefits should be automatically indexed and whether or not the indexing mechanism should be changed, it does provide for a temporary delay of benefit increases which have been eroding the trust fund reserves. In addition, it sets a precedent for COLA delays in other programs which are necessary if the Congress is to get government spending under control.

NAHB applauds the recommendations of the Commission in seeking to expand social security coverage to include federal government employees and to move to prevent further "opting out" of state and local governments. An obvious inconsistency exists under the current situation where those who make the laws regarding social security and those who administer and enforce these laws do not contribute to the system. Clearly, pension rights of civil service employees should not be jeopardized and a supplemental civil service retirement program should be developed. However, there is little justification for total exclusion of federal government workers from social security, and the present practice of "double-dipping", which should be eliminated. The expansion of social security coverage to non-profit organizations also is of merit.

The other benefit changes which the Commission recommended should be implemented. Elimination of "windfall benefits" should be adopted.

In summary, NAHB feels that the thrust of the benefit changes are correct. Perhaps the changes could have gone further. For example, including some current civil service employees under social security or delaying the social security COLA for one year instead of six months would have preserved additional needed revenues. But, the recommendations represent an important step in the right direction.

In addition, NAHB, in developing its policy, did not consider taxing social security benefits. The recommendations of the Commission that 50 percent of OASDI benefits be taxed under the income tax is a recognition that many elderly beneficiaries do not rely solely upon social security benefits as a source of support. In considering this proposal, the so-called "notch" problem should be corrected so that one extra dollar of income does not automatically trigger large additional taxes based upon social security benefits.

The Commission's recommendations concerning employer-employee tax increases and the self-employment tax increases place heavy emphasis upon increased taxes as a means of solving the short term difficulties facing social security. These two changes account for $58 billion of the additional $168 billion in short term revenue and benefit changes recommended by the Commission. In other words, about one-third of the "solution" for social security involves payroll tax increases. As previously noted, there are negative implications for these tax increases, both in terms of inflation and labor costs. In addition, the causes of the current social security problem can be traced largely to overly generous benefit promises made in the past. In particular, the adoption in 1972 of provisions which gave retired workers full cost of living increases without limit has led to an almost insupportable tax burden in the form of social security payroll taxes necessary to support these benefit promises.

Home builders, who by and large are small businessmen, and their employees, rarely receive wages indexed to the cost of living. Private retirement plans are rarely indexed to the cost of living. New entrants into the home building business find themselves faced with high payroll taxes to fund benefits for past workers. Additional taxes, therefore, are difficult to accept. But, this additional revenue will help to fund the social security trust funding during the next several difficult years.

NAHB urges the Congress to consider carefully the effect of self-employment tax increase, since it will fall most heavily on low-income, self-employed workers. The Congress may want to consider, as an alternative to the Commission's recommendations, within the same revenue parameters, a method of reducing the burden of the self-employment tax increase of low-income self-employed individuals. For example, in exchange for a smaller tax deduction than recommended in the Commission Report, the Congress may want to retain the current differential between employer-employee tax and self-employed tax rates for individuals under a certain income level. NAHB would not, however, support proposals which would reduce the total revenue derived from changes in the self-employment tax rate.

IV. THE LONG-TERM SOLUTION

The National Commission found that the total revenue short fall for social security over the long term was 1.82 percent of taxable payroll. The Commission's recommendations reduce the long range deficits, but still leave remaining a short fall of .58 percent of payroll over the long term.

NAHB urges Congress to act to resolve this long term problem as part of the current social security legislation. Failure to do so will only leave questions in the minds of both workers and retirees about the soundness of the system in which workers contribute hard earned tax dollars and upon which beneficiaries rely.

Specifically, NAHB would make the following recommendations as possible options for providing for a long term solution for social security. Adoption of one or a combination of these proposals could provide sufficient funds to provide for social security.

Congress should increase the present retirement age under social security. Retirement at age 65 might have been appropriate when social security was first initiated. But, today, life expectancies have expanded. A gradual increase in the retirement age of social security should be considered. The recommendations of seven of the Commission members with regard to the retirement age should be implemented. This will bring social security more in line with actuarial reality.

The method of indexing benefits should also be revised. The current method ties benefits to the consumer price index.

Criticism of the procedures for computing the CPI on the grounds that it overemphasized housing costs resulted in a change in the CPI to a rental equivalency. This, however, could boomerang since future projections show rents increasing at a rapid rate.

The difficulties with the CPI underscore the need to provide for a more flexible and realistic index. Since wages—not prices—are the base for which contributions to the system are made, Congress should consider revising the indexing formula to index benefits to the lesser of wages or prices. The Commission took a step in this direction when it recommended that beginning in 1988, if the fund ratio is less than 20 percent, the COLA should be based upon the lower of CPI increase or increase in wages. However, the Commission's recommendations are too complicated and fail to address adequately the significance of providing for a realistic indexing formula. Indexing based upon the lesser of CPI increases or increases in wages should be implemented immediately without a 20 percent trigger.

If increasing the retirement age and revising benefit indexing is not adopted, Congress could look closely at the so-called "bend points" for computing present benefits. The current system progressively increases benefits based upon a worker's average wages. A change in the bend points by approximately ten percent would provide for a significant reduction in benefits. Such a change would distribute the burden of benefit changes evenly among all beneficiaries, rather than paying more benefits to those fortunate beneficiaries who happen to live longer than actuarial mortality tables would predict.

Finally, Congress should keep in mind the high sensitivity which social security revenues have upon the state of the economy. In inflationary times, based upon the current indexing formula, benefits exceed revenues, thereby eroding reserves and ultimately creating a revenue shortfall. In poor economic times, reserves and revenues are depleted because high unemployment reduces the work force contributing to the system. A realistic indexing formula based upon the lesser of wages or CPI increases would address much of the inflationary difficulties. However, there has been no solution put forth for the latter problems of a recessionary economy. One approach to consider is a trigger based upon a 20 percent reserve level, i.e. approximately 2½ months of benefits. If reserves fall below this level because of the state of the economy, then benefit levels could be scaled back. Particularly, cost of living adjustments could be delayed until economic conditions improve.

IV. SUMMARY

In summary, NAHB urges the Congress to resolve the impending fiscal crisis confronting social security.

It applauds this Committee and its Chairman for promising early action.

The recommendations of the Commission provide an acceptable package for the short term crisis confronting social security. It is crucial, however, that in addition to solving the short term crisis, Congress should also take this opportunity to resolve the long term problem confronting social security. NAHB has recommended several possible changes. The opportunity to establish a financially sound social security system over the long term should not pass. We shouldn't wait for another Congress to resolve another social security crisis.

NAHB welcomes the opportunity to work with this Committee and its staff in fashioning a workable proposal for social security.

APPENDIX A

NAHB RESOLUTION

Date: Sept. 22, 1982.

City: Miami Beach, Fla.

Title: Social Security Reform.

Original Sponsor: Special Committee on Labor Relations, and Special Committee on Taxation.

Whereas the Social Security Act was passed in 1935 to "provide for the general welfare" of the American people;

Whereas the three main programs under the Act are Old Age and Survivors Insurance (OASI), Disability Insurance and Hospital Insurance;

Whereas the major source of income of the Social Security system is the payroll or social security tax that is paid by employers, employees and the self-employed;

Whereas the Annual Report of the Security Board of Trustees indicates that the Old-Age and Survivors Fund will not be able to pay benefits on time by July 1983;

Whereas some of the reasons that have led to these financial difficulties are: (1) Beneficiaries have paid for only a small percentage of their benefits; (2) The ratio of workers to beneficiaries is declining; (3) Benefits have gone up faster than average wages; (4) Life expectancy after age 65 has risen from 12.8 to 16.6 years since 1940; (5) High unemployment has reduced the amount of money collected in social security taxes; (6) The benefits paid out have increased more than the amount of social security tax collected;

Whereas the President's Commission on Social Security is scheduled to report to the Congress by December 31, 1982, and make recommendations on methods to improve the financial condition of social security and Congress must act to preserve social security;

Whereas tax increases necessary to solve the financial problems of social security would substantially impair the ability of millions of workers' ability to own their own homes; and

Whereas, the failure to deal with the problem will produce high federal deficits in the future and virtually guarantee high interest rates which will limit the ability of millions of workers to own their own homes; Now therefore, be it

Resolved, That the National Association of Home Builders urges Congress and the President's Commission on Social Security to immediately address the problems inherent in the Social Security system and entitlement programs by making the following changes:

1. Revise the automatic indexing of benefits to assure that retired persons are not receiving larger and more frequent cost-of-living increases than those who are working and contributing to the Social Security fund,
2. Prohibit the practice of "double dipping" for future retirees (the practice of receiving a federal pension while, at the same time, receiving another federal pension or federal salary),
3. Revise benefit levels and qualification standards that act as a deterrent for individuals to seek and hold jobs and revise disability benefits to preserve work incentives and to restore the integrity of the program,
4. Extend beyond this year (1982) borrowing from the Disability and Hospital Trust Fund to keep the Social Security fund solvent. Only as a last resort, should Congress consider funding the Social Security system from general revenues.
5. Reduce dependence on Social Security for retirement by encouraging individual savings and the expansion of private pension plans, and
6. Increase the age at which Social Security beneficiaries may retire with full benefits.

Be it further resolved, That NAHB urges Congress to act immediately on these and other proposals in order to restructure the Social Security system so that it becomes solvent and workable in the future for all generations of Americans.

Mr. ANTHONY. Thank you, Mr. Bannister.

My apologies to Mr. Richard Schulz. When I read the list of panelists I did overlook his name, and we will now go to Mr. Richard Schulz, who is a representative of the American Society for Personnel Administration and a member of the compensation and benefits committee, and he is accompanied by Mr. Ron Pilenzo, president.

So, Mr. Schulz, your full testimony is accepted for the record and you are now allowed to summarize as you see fit.

STATEMENT OF RICHARD SCHULZ, MEMBER, COMPENSATION AND BENEFITS COMMITTEE, AMERICAN SOCIETY FOR PERSONNEL ADMINISTRATION, ACCOMPANIED BY RONALD C. PILENZO, PRESIDENT

Mr. SCHULZ. Thank you. Mr. Chairman, members of the subcommittee, my name is Richard Schulz. I am appearing before you today on behalf of the American Society for Personnel Administration. Accompanying me is ASPA president Ron C. Pilenzo.

The American Society for Personnel Administration is the world's largest association of personnel and industrial relations professionals, representing nearly 32,000 practitioners in business, government, and education, dedicated to the furtherance of personnel and industrial relations management.

ASPA members are involved in all aspects of personnel policy. While ASPA members come from every level of business and government and hold positions at every level within their organizations, ASPA represents the operating personnel practitioner of the small to medium sized company or operating facility within a larger company.

We believe that the system for providing human dignity in retirement through adequate retirement income must be viewed as a unified whole, with social security, public retirement plans, private retirement plans, and the financial resources of individuals each serving an important role in meeting the needs of our retirees.

The 1977 amendments to the Social Security Act did much to strengthen the social security system and to correct the prior design mistakes. We agreed in concept with several of the changes made at that time and were encouraged by the effort to correct both short- and long-term problems, and were only disappointed that more complete solutions were not adopted.

We have also been supportive of the several congressional review commissions that have studied the social security system in recent years. The results of those studies, combined with input from other interested groups, should have fully identified both the problems associated with the present social security system and alternative solutions that would protect the rights of all citizens.

Unfortunately, we are not convinced that present proposed changes will solve the serious problems associated with the social security system so much as those proposed changes will really postpone taking necessary actions. We do not feel that further postponement of the permanent resolution of the problems inherent in the present social security system is in the best interests of our citizens.

I am going to briefly summarize the recommendations that we made to the Subcommittee on Social Security and Income Maintenance Programs of the U.S. Senate Committee on Finance in 1981. I will not hit all of the suggestions because those are in the written comments, but merely a few of the main ones.

One, the annual inflationary adjustment should be indexed to the lower of the CPI change or wage increase. Efforts should be made to develop an accurate measure of inflationary impact upon retirees as an alternative means of indexing benefits.

Another one, transfer the non retirement benefits out of the social security system. This would include disability, survivor, medicare, medicaid, and supplemental income benefits which would more properly fall into a welfare classification.

Again, universal coverage should be required. This could be on a prospective basis, and would eliminate the potential windfall benefits which certain noncovered groups of employees can presently achieve.

Again, establish a replacement of earnings ratio that would limit the replacement of earnings ratio for low-income levels to not more than twice the replacement ratio for high-income levels. This assures some relationship between contributions and benefits.

And finally, raise the normal retirement age to 67 or 68.

As I mentioned before, there are other recommendations, but those are in the written comments.

Now I would like to go on to comments on the recommendations made by the National Commission on Social Security Reform. Although the recommendations proposed by the commission indicate a thorough understanding of the immediate problems confronting the social security system, and a fair degree of political courage in recommending needed changes, we felt that the recommended changes were inadequate in several respects.

No. 1, social security reform has become a political football, with all parties involved playing a dangerous game of brinksmanship. As our elected political representatives, it is the responsibility of congressional Members of both parties to permanently resolve the social security issue and relieve the anxiety of both present and future beneficiaries of the system.

Two, efforts seem to be directed predominantly toward funding the existing system, and problems are generally defined as financial in nature. Perhaps the total design of the system should be reviewed, in that our national demographs, lifestyle, social and economic environments have all changed radically since the beginning of the social security system, and will probably change again before the post World War II baby boom group reaches retirement age.

No. 3, the proposed changes are actually a continuation of the bandaid approach to resolving problems that seems to be so politically popular today. The commission defined the short-term problem to be a financial shortfall of between $150 billion to $200 billion, and the long-term problem to be approximately 1.8 percent of taxable payroll.

These cost estimates were based on the intermediate actuarial assumptions, and over the last 15 years the intermediate actuarial assumptions have consistently grossly understated cost. An example would be the fertility rate, which is projected to rise about 12 percent above the present rate, while simultaneously projections by the Bureau of Census recommend using the existing rate for planning purposes.

Another problem that was ignored and thus left for another study group at a future time of crisis is the fact that by including the health insurance—or the HI—cost projections in with the OASDI long-term cost projections, the shortfall becomes approximately 7 percent of taxable payroll instead of 1.8 percent. This means that trillions of dollars of shortfall were totally ignored.

No. 4, last but not least is our concern with the massive tax increases which could seriously jeopardize any chances of an economic recovery in the near future. These tax increases would undoubtedly add to an already intolerable unemployment problem, and also increase prices, which would jeopardize the fine progress already made toward controlling inflation.

Finally, I would like to make a few specific recommendations for changes to the commission proposals. Following are specific recommendations for adjustments to the proposed changes submitted by the commission. These are ranked by priority order.

No. 1, increase the normal retirement age to 66 in 2002, beginning the phase in in 1995, and thereafter adjust according to changes in longevity. This would reduce long-term costs by 1.81 percent of taxable payroll.

No. 2, include all Federal, State, and local government employees and nonprofit employees. This would save $110 billion in the short run, and 0.53 percent of taxable payroll in the long run. If a phase-in period was considered necessary for existing employees, then a 5 or 10 year period should be totally adequate.

No. 3, immediately prohibit withdrawal from coverage by any group for any reason.

No. 4, all future COLA adjustments should be on the lower of the CPI increase or the increase in wages, with no catch up in future years, regardless of fund level. This would save $4 billion in the short run and 0.43 percent of taxable payroll in the long run.

Now, the aforementioned changes would still not answer the question of the appropriateness of the total design of the system, nor of the projected health insurance cost problem, but they would greatly improve the recommendations presently under review.

The total short-term cost impact of our recommendations and the other changes recommended by the commission would exceed $170 billion, and the long-term cost savings would be 2.88 percent of covered payroll.

Thank you.

[The prepared statement follows:]

STATEMENT OF RICHARD SCHULZ WITH RONALD C. PILENZO ON BEHALF OF THE AMERICAN SOCIETY FOR PERSONNEL ADMINISTRATION

PREFACE

Mr. Chairman, Members of the Subcommittee, my name is Richard Schulz. I am appearing before you today on behalf of the American Society for Personnel Administration. Accompanying me is ASPA President, Ronald C. Pilenzo.

The American Society for Personnel Administration is the world's largest association of personnel and industrial relations professionals representing nearly 32 thousand practitioners in business, government, and education dedicated to the furtherance of personnel and industrial relations management. ASPA members are involved in all aspects of personnel policy, While ASPA members come from every level of business and government and hold positions at every level within their organizations, ASPA represents the operating personnel practitioner of the small to medium-sized company or operating facility within a larger company.

We believe that the system for providing human dignity in retirement through adequate retirement income must be viewed as a unified whole, with Social Security, public retirement plans, private retirement plans, and the financial resources of individuals, each serving an important role in meeting the needs of our retirees.

The 1977 amendments to the Social Security Act did much to strengthen the Social Security System and to correct prior design mistakes. We agreed in concept with several of the changes made at that time, and were encouraged by the effort to correct both short and long term problems and were only disappointed that more complete solutions were not adopted. We have also been supportive of the several Congressional review commissions that have studied the Social Security System in recent years. The results of those studies, combined with input from other interested groups, should have fully indentified both the problems associated with the present Social Security System and alternative solutions that would protect the rights of all citizens.

Unfortunately, we are not convinced that present proposed changes will solve the serious problems associated with the Society Security System so much as those proposed changes will merely postpone taking necessary actions. We do not feel that further postponement of the permanent resolution of the problems inherent in the persent Social Security System is in the best interests of our citizens.

RECOMMENDATIONS

The following recommendations should be viewed as a series of changes that can be implemented over varying periods of time. These recommendations are approximately the same as those we submitted to the "Subcommittee on Social Security and Income Maintenance Programs of the United States Senate Committee on Finance" in 1981. The first changes are those that we feel should be acted upon immediately and the last recommendations are those that we feel can be phased in over a longer period of time. Our primary concern is to assure the continuation of the basic Social Security System and to guarantee its fiscal soundness for future generations.

1. Interfund borrowing should be allowed with an appropriate interest rate paid for borrowed funds.
2. The annual inflationary adjustment should be indexed to the lower of the CPI change or wage increase. Efforts should also be made to develop an accurate measure of inflationary impact upon retirees as an alternative means of indexing benefits.
3. The cost of the Social Security System should continue to be borne equally by employers and employees. General revenues (deficits) should not be utilized.
4. Publicize the general policy that it is the intent of the Social Security System to only supply a portion of the income necessary for a comfortable post retirement standard of living. Make the public aware of this policy and stress the importance of their making their own provisions for the accumulation of the additional funds necessary to provide for the desired standard of living during retirement.

5. Transfer the non-retirement benefits out of the Social Security System. This would include disability, survivor, Medicare, Medicaid and supplemental income benefits which would more properly fall into a welfare classification.

6. Universal coverage should be required. This could be on a prospective basis and would eliminate the potential windfall benefits which certain non-covered groups of employees can presently achieve.

7. Establish a replacement of earning ratio that would limit the replacement of earnings ratio for low income levels to not more than twice the replacement ratio for high income levels This assures some relationship between contributions and benefits.

8. Raise the normal retirement age to 67 or 68.

9. Do not extend or make improvements in the existing Social Security System. There are enough inherent serious problems with the present Social Security System that it would be inappropriate to view further expansion of the system until we have firm recommendations concerning existing problems. The general direction for Social Security should be centered on post-retirement income and other types of wage replacement protection should be handled by the appropriate welfare programs.

Based on actuarial cost estimate data that was made available to the National Commission on Social Security Reform in November, 1982, the adoption of certain of our recommendations would have the following cost impact:

Recommendations	OASDI[1] cost savings	
	1983–89 billions	1987–2056 percent of taxable payroll
Number:		
2	4	.43
6	110	.53
8 increase "normal" retirement age to 66 in 2002 and adjust according to longevity thereafter		1.81

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[1] These cost estimates assume the intermediate economic assumptions (Alternative II–B) of the 1982 OASDI Trustees Report.

The increase in the "normal" retirement age alone would provide a long term cost savings of a magnitude large enough to solve the financial "shortfall" as defined by the Commission.

COMMENTS ON RECOMMENDATIONS MADE BY THE NATIONAL COMMISSION ON SOCIAL SECURITY REFORM

Although the recommendations proposed by the Commission indicate a thorough understanding of the immediate problems confronting the Social Security System and a fair degree of "political" courage in recommending needed changes we felt that the recommended changes were inadequate in several respects.

1. Social Security reform has become a "political football" with all parties involved playing a dangerous game of "brinksmanship." As our elected political representatives, it is the responsibility of congressional members of both parties to permanently resolve the Social Security issue and relieve the anxiety of both present and future beneficiaries of the system.

2. Efforts seem to be directed predominantly towards funding the existing system and problems are generally defined as "financial" in nature. Perhaps the total design of the system should be reviewed in that our national demographs, life style, social and economic environment have all changed radically since the beginning of the Social Security System and will probably change again before the post-World War II baby boom group reaches retirement age.

3. The proposed changes are actually a continuation of the "bandaid" approach toward soving problems that seems to be so politically popular today. The commission defined the short term problem to be a financial "shortfall" of between $150–$200 billion and the long term problem to be approximately 1.8 percent of taxable payroll.

These cost estimates were based on the intermediate actuarial assumptions and over the last 15 years the intermediate actuarial assumptions have consistently grossly understated cost. An example would be the fertility rate which is projected to rise about 12 percent above the present rate while simultaneously projections by the Bureau of the Census recommend using existing rates for planning purposes.

Another problem that was ignored and thus left for another study group at a future time of crises is the fact that by including the H.I. (Health Insurance) cost projections in with the OASDI long term cost projections the "shortfall" becomes approximately 7 percent of taxable payroll instead of 1.8 percent. This means that "trillions" of dollars of "shortfall" were ignored.

4. Last, but not least, is our concern with the massive tax increases which cold seriously jeopardize any chances of an economic recovery in the near future. These tax increases would undoubtedly add to an already untolerable unemployment problem and also increase prices which would jeopardize the fine progress already made toward controlling inflation.

RECOMMENDATIONS FOR CHANGES TO COMMISSION PROPOSALS

Following are our specific recommendations for adjustments to the proposed changes submitted by the Commission. These are ranked in priority order.

1. Increased the "normal" retirement age to 66 in 2002, beginning phase-in in 1995, and thereafter, adjust according to changes in longevity. This would reduce long term costs by 1.81 percent of taxable payroll.
2. Include all Federal, State and local goverment employees and non-profit employees. This would save $110 billion in the short run and .53 percent of taxable payroll in the long term. If a "phase-in" period was considered necessary for existing employees, than a five or ten year period should be adequate.
3. Immediately prohibit withdrawal from coverage by any group.
4. All future COLA adjustments be based on the lower of the CPI increase or the increase in wages with no "catch-up" in future years regardless of fund level. This would save $4 billion in the short run and .43 percent of taxable payroll in the long term.

The aforementioned changes would still not answer the question of the appropriateness of the total design of the System, nor of the projected H.I. cost problem, but they would greatly improve the recommendations presently under review. The total short term cost impact of our recommendations and the other changes recommended by the commission would exceed $170 billion and the long term cost savings would be 2.88 percent of covered payroll.

Mr. **Anthony**. Thank you, Mr. Schulz.

Our next witness will be Mr. Leffler.

STATEMENT OF MARVIN LEFFLER, CHAIRMAN OF THE BOARD, NATIONAL COUNCIL OF SALESMEN'S ORGANIZATIONS, INC.

Mr. **Leffler**. My name is Marvin Leffler. I appear as chairman of the board of the National Council of Salesmen's Organizations. We represent more than 50,000 commissioned sales people who either individually or through affiliated groups are members of the national council.

Attached to my testimony is a list of member organizations.

We are a trade organization for commissioned sales people without political affiliation, and comprised of men and women of all ages and economic circumstances.

Let me state at the outset that we understand and support the necessity for shoring up the social security system. We understand, too, that there must be a spirit of compromise, and that the proposed package, if adopted in toto, might prove to be an acceptable compromise. However, it is apparent that there will be changes sought by those who object to various provisions of the Commission's proposal.

Our objections are being noted here today, because we would like them to be considered when inevitable revisions to the commission's plans are made. Further, there are certain technical objections, as contrasted to the philosophical, which we would like considered as the bill and subsequent regulations are drawn.

First, let me state our philosophical position. The concept of taxing social security benefits destroys the basis on which the system was founded. It is the camel's nose in the tent of establishing a means test for retirement benefits which have been earned by a lifetime of mandatory contributions, all of which were based on gross dollars before Federal income tax and State and city taxes were applicable.

Once you begin to distinguish between recipients as to gross income aside from social security and penalize those whose earlier frugality was intended to provide for a comfortable retirement, you are attaching a means test, and that is objectionable.

Social security was never intended to be a welfare payment. It was a business deal between the Government and the individual. One pays in so many dollars which the employer will match, and upon retirement, he or she will receive benefits to which they are entitled regardless of need or regardless of what others perceive is adequate personal means from other sources.

On a technical basis, we have these objections to the taxing provisions as proposed in the Commission's report. First, the self-employed, many of whom are national council members, are unfairly treated. Up until now, they have themselves paid in two-thirds of the total social security tax without any income tax deductibility, as opposed to a corporate entity, where the individual pays one-half of the tax, which is not deductible, and the corporation pays the other half, which is deductible for them.

While the Commission would expand the tax liability for independent contractors to equal the full tax in the future, with tax credit on half the payment, which is fair, the Commission would retroactively force independent contractors to pay a tax on half the proceeds, even though he or she has contributed up until now on a two-thirds basis, thus, in effect, penalizing the independent contractor to a greater degree than corporate counterparts.

Second, as we understand it, single people with $20,000 of other income and married people with $25,000 of other income will be taxed. This raises some serious questions. What is other income? Would it include tax exempt income? If so, how would it be computed, or even located? Would it include the proceeds of IRA and Keogh plans which are taxable of themselves and must be mandatorily withdrawn at age 70½, and can be withdrawn after age 59½?

If so, how would this square with the fact that the American people have been told to prepare for their retirement, and withdraw the proceeds when presumably they would be in a lower tax bracket, yet the very proceeds of these plans could now trigger a further tax on social security benefits. How will people be able to retire at all if we keep changing the laws and dipping into their savings? If $25,000 a year for a couple is not really a hallmark of wealth, when actually by the time taxes are paid, including the new proposed social security tax, a couple would be left with little incentive to save for retirement.

Actually, would you not, in adopting this plan, be penalizing those who have helped the system the most, those who worked until age 70 paying an additional social security tax and not drawing from the fund for 5 additional years? After all, if an individual earned $20,000 at age 65 to 70, he would be ineligible for social security unless it was totally from passive income. Only at age 70 would he or she be able to earn all they could without impacting on their ability to get social security payments.

It is our feeling that it would prove counterproductive to enact the tax proposal based upon income. There would be a disincentive to earn more than the ceiling amount. There would be a disincentive to save if unearned income is included in the formula. There would be a disincentive to continue working past age 70, which many now do, especially independent contractors.

Obviously, in summary, let me say that there is no perfect solution to the problem of the insolvency of the present system. Instead of increasing the retirement age gradually or relying on general revenue or scaling benefits to the ability of the fund to pay, or even changing the welfare provisions of the current law, the Commission has opted for the simple solution of taxing again in an inequitable manner that which has already been paid for by the contributors over the years.

We do not agree with this approach, and urge that the Congress take a long, hard look at the treatment the Commission's proposal would give to the independent contractors and those with other income, and that a more equitable basis be adopted for rescuing the system.

Thank you very much.

[The prepared statement follows:]

Statement of Marvin Leffler, Chairman of the Board, National Council of Salesmen's Organizations

Mr. Chairman, distinguished members of the committee, my name is Marvin Leffler. I appear here as chairman of the board of the National Council of Salesmen's Organizations. We represent more than 50,000 commissioned sales people who, either individually or through affiliated groups, are members of NCSO. Our members are engaged in more than 100 industries running the gamut from aerospace to yarns but the common thread between us is that we are all commissioned sales representatives whose products are sold for resale either in their natural state or as components of a manufactured product. Our members are largely independent contractors but a number are employees, while others do business under partnership, regular corporate or sub S corporation status.

THE NATIONAL INTEREST

We are a trade organization for commissioned salespeople without political affiliation and comprised of men and women of all ages and economic circumstances. Our views on the commission's proposal for social security legislation are based solely on what we believe to be in the national interest.

Let me state at the outset that we understand and support the necessity for shoring up the social security system. We understand, too, that there must be a spirit of compromise and that the proposed package, if adopted en toto, might prove to be acceptable compromise. However, it is apparent that there will be changes sought by those who object to various provisions of the commission's proposal.

Our objections are being noted here, today, because we would like them to be considered when inevitable revisions to the commission's plans are made. Further, there are certain technical objections as contrasted to the philosophical, which we'd like considered as the bill and subsequent regulations are drawn. First, let me state our philosophical position.

TAXING BENEFITS DESTROYS BASIS FOR SYSTEM

The concept of taxing social security benefits destroys the basis on which the system was founded. It is the camel's nose in the tent of establishing a means test for retirement benefits which have been earned by a lifetime of mandatory contributions all of which were based on gross dollars before federal income tax and state and city taxes were applicable.

Once you begin to distinguish between recipients as to gross income, aside from social security, and penalize those whose earlier frugality was intended to provide for a comfortable retirement, you are attaching a means test and that is objectionable. Social security was never intended to be a welfare payment. It was a business deal between you and the individual ("You" being the government in this instance). One pays in so many dollars which the employer will match and upon retirement he or she will receive benefits to which they are entitled regardless of need or regardless of what others perceive is adequate personal means from other sources.

On a technical basis, we have these objections to the taxing provisions as proposed in the commission's report:

THE SELF-EMPLOYED

1. The self-employed, many of whom are NCSO members, are unfairly treated. Up to now, they have themselves paid two thirds of the total social security tax without any income tax deductibility as opposed to a corporate entity where the individual pays one half of the tax (which is not deductible) and the corporation pays the other one half which is deductible for them.

While the commission would expand the tax liability for independent contractors to equal the full tax in the future with tax credit on half the payment, which is fair, the commission would retroactively force independent contractors to pay a tax on half the proceeds even though he or she has contributed up to now on a two thirds basis thus, in effect, penalizing the indepencent contractor to a greater degree than corporate counterparts.

OBJECTIONS TO TAXING BENEFITS

2. As we understand it, single people with $20,000 of other income and married people with $25,000 of other income will be taxed. This raises some serious questions:

What is "other income? Would it include tax exempt income and if so, how would it be computed or event located?

Would it include the proceeds of IRA and/or Keogh plans which are taxable of themselves and must be mandatorily withdrawn at age 70½ and can be withdrawn after age 59½? Is so, how would this square with the fact that the American people have been told to prepare for their retirement and withdraw the proceeds when, presumably, they would be in a lower tax bracket. Yet the very proceeds of these plans could now trigger a further tax on social security benefits.

How will people be able to retire at all if we keep changing the laws and dipping into their savings? Is $25,000 a year for a couple really a hallmark of wealth when, actually, by the time taxes are paid including the new social security tax, if enacted, a couple could be left with little incentive to save for retirement.

Actually, would you not, in adopting this plan, be penalizing those who have helped the system the most . . . those who work until age 70 paying in additional social security taxes and not drawing from the fund for 5 additional years? After all, if an individual earned $20,000 at age 65-70, he would be ineligible for social security (unless it was totally from passive income). Only at age 70 would he or she be able to earn all they could without impacting on his ability to get social security payments.

COUNTERPRODUCTIVE PROPOSALS

It is our feeling that it will prove counter-productive to enact the tax proposal based on income. There would be a disincentive to earn more than the ceiling amount. there would be a disincentive to save if unearned income is included in the formula. There will be a disincentive to continue working past age 70 which many now do, especially independent contractors.

Will the social security income, if taxable, be fed into the individual's income package in such way as to promote bracket creep thus, in effect, reducing benefits received from a lifetime of contributions and making net social security income variable rather than constant?

SUMMARY

Obviously, there is no perfect solution to the problem of the insolvency of the present system. Instead of increasing the retirement age gradually, or relying on general revenue, or scaling benefits to the ability to pay or even changing the welfare provisions of the current law, the Commission has opted for the simplistic solution of taxing again, in an inequitable manner that which has already been paid for by the contributors over the years.

We do not agree with this approach and urge that the Congress take a long, hard look at the treatment the Commission's proposal would give to the independent contractors and to those with other income and that a more equitable basis be adopted for rescuing the system.

Thank you for inviting us to appear and for your courteous attention.

GROUPS AFFILIATED WITH NATIONAL COUNCIL OF SALESMEN'S ORGANIZATIONS, INC.

Connecticut Assn. of Manufacturers Representatives; Costume Jewelry Salesmen's Association; Fabric Salesmen's Association; Greater New York Home Furnishings Association; Furniture Manufacturers Representatives of New Jersey; Infants' Furniture Representatives Association; Infants' and Children's Wear Salesmen's Guild; International Home Furnishings Representatives Association; Lighting, Lamp and Electrical Manufacturers Salesmen's Association; Long Island Educational Sales Association; Luggage & Leather Goods Salesmen's Assn. of America; National Confectionery Salesmen's Association; New Jersey Sales Representatives; New York Candy Club; New Jersey Paint Salesmen's Association; New York Paint Travelers; Philadelphia Manufacturers Representatives Association; Plumbing & Heating Mfrs. Representatives of New England; Salesmen's Assn. of Paper & Allied Industries—New York & New Jersey; Sales Representatives Assn. of New York; and Toy Knights of America.

Mr. ANTHONY. Thank you, Mr. Leffler.

Our next witness would be Ms. Goshy.

STATEMENT OF JUDY GOSHY, PERSONNEL MANAGER, SOCIETY OF AUTOMOTIVE ENGINEERS

Ms. GOSHY. Thank you.

I am Judy Goshy, the personnel manager of the Society of Automotive Engineers [SAE], which [illegible] a nonprofit section 501(c)(3) organization.

SAE is a scientific and [illegible]al organization of over 40,000 members who are involv[illegible], or [illegible] an organization are involved in developing technical infor[illegible] such as standards, specifications, and publications that a[illegible] throughout the world by individuals who are involved in [illegible] developing, improving automotive vehicles, their compo[illegible] parts, and the fuels and liquids associated with these vehicles.

SAE is headquartered in Warrendale, Pa., which is north of the city of Pittsburgh, and we currently employ about 150 people.

I am testifying today on behalf of SAE in regard to the National Commission's recommendation that social security coverage should be extended on a mandatory basis as of January 1, 1984, to all employees of nonprofit organizations.

First of all, the SAE strongly opposes the National Commission's recommendation, for two specific reasons. First, this recommendation unfairly discriminates against nonprofit employees as compared to both State and local employees and Federal employees. It perpetrates an inequity for all nonprofit organizations.

Second, adoption of this recommendation would have an adverse impact on nonprofit employees and their current employee benefit programs.

In the instance of SAE, for example, we conducted over a 3-year study considering the feasibility of withdrawing from social security, and at the end of that study we determined that it would be advantageous to the organization as well as the employees to withdraw from social security, so we developed an alternative package of benefits that are now considered by the SAE as well as the employees to be superior to social security.

We revised our pension plan. We added a tax sheltered savings program. And we significantly increased our term life insurance program, where those three benefits combined would generally take the place of social security. Withdrawal from social security also enables SAE to efficiently and actively manage its total benefit package so that we are not at the mercy of governmental actions, and since benefit program costs are paid as they are accrued, it provides us with increased assurance that the assets will be on hand to pay the benefits that were promised to the employees.

Now, SAE itself did not withdraw from social security to save money. The purpose of withdrawal was to provide an improved benefit package to the employees. If we are forced back into social security, we will be forced to severely reduce many of our benefit programs that we have now established. It will increase payroll costs, and it will also destroy the employee expectations, the feelings that they have in their future as far as their benefits are concerned. It will also create significant morale problems.

So, in lieu of this recommendation, the National Commission's recommendation, the Society of Automotive Engineers asks that nonprofit organizations presently not in the social security system be accorded the same and equal treatment as State and local employees, that is, be allowed to remain out of the system, or, failing that, that social security coverage be extended only to newly hired nonprofit employees, which is consistent with the treatment of Federal employees.

Thank you.

[The prepared statement follows:]

STATEMENT OF JUDY GOSHY, PERSONNEL MANAGER, SOCIETY OF AUTOMOTIVE ENGINEERS

SUMMARY

The Society of Automotive Engineers opposes the National Commission's recommendation that Social Security coverage be extended to all nonprofit employees for two reasons. First, this recommendation unfairly discriminates against nonprofit employees as compared to both state and local employees and federal employees. Second, adoption of this recommendation would have an adverse impact on nonprofit employees and their current employee benefit programs. In lieu of this recommendation, the Society of Automotive Engineers asks that nonprofit organizations presently not in the Social Security system be allowed to remain out of the system, or, failing that, that Social Security coverage be extended only to newly hired nonprofit employees.

STATEMENT

My name is Judy Goshy and I am the Personnel Manager of the Society of Automotive Engineers (SAE), a nonprofit Section 501(c)(3) organization. With me is Alan P. Dye of the Washington, D.C. law firm of Webster, Chamberlain & Bean. This law firm is Washington, D.C. counsel to SAE.

SAE is a scientific and educational organization of over 40,000 members who work in all phases of automotive engineering in such diverse areas as automobiles, trucking, railroads, shipping and aerospace. SAE's headquarters is located in Warrendale, Pennsylvania outside of Pittsburgh. SAE presently employs approximately 150 people on its staff.

I am testifying today on behalf of SAE in regard to the National Commission's recommendation that Social Security coverage should be extended on a mandatory basis, as of January 1, 1984, to all employees of nonprofit organizations. This recommendation, if adopted by the Congress, would affect approximately one million nonprofit employees not presently covered by the Social Security system.

SAE is opposed to this recommendation of the National Commission because it unfairly and without justification discriminates against nonprofit employees as compared to both state and local employees and federal employees. SAE is not opposed to the extension of Social Security coverage to nonprofit employees in principle, but believes that nonprofit employees have have been unfairly singled out for the most abrupt and drastic change in coverage. In short, SAE believes that the extension of Social Security coverage to presently uncovered sectors of the labor force should be done on a fair and equal basis.

With respect to state and local employees, the National Commission's recommendations would allow state and local governments which never elected to join the Social Security system or which have withdrawn from the system to remain out of the system. In contrast, nonprofit organizations which never elected to join the system or which have opted out will be required to return to the system and immediately cover all their employees on January 1, 1984.

With respect to federal employees, the National Commission's recommendations would extend Social Security coverage only to federal employees newly hired on or after January 1, 1984, but would require nonprofit organizations to extend Social Security coverage to all of their employees on that date.

SAE believes that fundamental fairness requires that nonprofit employees should be accorded the same and equal treatment as state and local employees or, at the very least, as federal employees. The National Commission has, in effect, recommended that the status quo with respect to state and local employees be preserved on a group basis at the employer level and that the status quo with respect to federal employees be preserved on an individual employee basis. Yet with respect to nonprofit employees, the National Commission has recommended that the status quo be destroyed for all nonprofit employees. SAE cannot perceive, and the National Commission certainly has not articulated, any reason for this disparate treatment of nonprofit employees.

In fact, whatever may be the reasons for phasing in coverage of federal employees and for allowing nonparticipating state and local governments to remain out of the system, there are equally good reasons for extending the same treatment to nonprofit employees. Many nonprofit organizations which are not in the Social Security system have provided alternatives to Social Security with which their employees are much happier. Adoption of the National Commission's recommendation would cause greatly increased payroll costs for these nonprofit organizations. These large increases in payroll costs would force these nonprofit organizations to drastically reduce or even eliminate current employee benefit programs and would, as a result, destroy legitimate employee expectations and engender serious employee dissatisfaction.

The experience of SAE provides a good example of the potential deleterious effects of the National Commission's recommendation. After its departure from the Social Security system in 1980, SAE significantly improved its existing employee pension plan, provided a new tax-sheltered Section 403(b) employee savings plan with partial matching employer contributions, and greatly increased its existing group term life insurance for its employees. Thus it is obvious that SAE's decision to withdraw from the Social Security system was not based on a mere desire to save money for the employer. In fact, the current SAE employee benefits package is considered by both SAE and its employees to be superior to Social Security benefits at the same cost. All of these increased employee benefits will have to be severely scaled back, with much employee dissatisfaction, if SAE is forced back into the Social Security system.

In conclusion, SAE opposes the National Commission's recommendation on the extension of Social Security coverage to all nonprofit employees. In lieu of this recommendation, we suggest two alternative proposals. First, nonprofit organizations which are not in the Social Security system, like nonparticipating state and local governments, should be allowed to remain out of the system. Failing that, Social Security coverage should, at the very least, be extended only to newly hired nonprofit employees in a manner consistent with the treatment of federal employees.

Mr. ANTHONY. Thank you, Ms. Goshy.

Mr. Dye, you are, I guess, representing the law firm representing Ms. Goshy, so you can amplify on her testimony.

STATEMENT OF ALAN P. DYE, COUNSEL, NATIONAL CHILD SAFETY COUNCIL AND NATIONAL FIRE SAFETY COUNCIL

Mr. DYE. Yes. My name is Alan Dye. I am a partner with the law firm of Webster, Chamberlain & Bean, and we are here today representing the National Child Safety Council and the National Fire Safety Council.

These two nonprofit organizations, which are located in Jackson, Mich., operate cooperatively and produce safety education programs presented in elementary and high schools across the United States in cooperation with local police and fire departments. The programs of the two organizations are carried on by about 100 employees located in the headquarters of the organizations and in the field.

The National Child Safety Council and the National Fire Safety Council are in much the same situation as Ms. Goshy's group. We are concerned not so much with the thrust of the Commission's recommendations, which we support, and we support, of course, cleaning up and more adequately financing the social security system. We are concerned not with that, but with the abrupt coverage of nonprofit employees that have not been previously covered.

In the case of the two organizations that we represent, they are not in social security and have never been in social security, and offer the employees as a substitute a 403(b) tax sheltered annuity. The inclusion of all employees at once as covered employees under social security on January 1, 1984, as suggested by the Commission, would have a severe adverse financial impact on the organizations, and would destroy the expectations of the employees who are used to having the alternative programs that they have and getting their compensation in cash and putting it into their 403(b) programs.

So, basically, what we are suggesting is that the same treatment be accorded to employees of nonprofit organizations as has been suggested for Federal employees, that this be phased in as new employees are hired by the organizations rather than hitting them all with it abruptly on January 1, 1984.

[The prepared statement follows:]

STATEMENT OF ALAN P. DYE ON BEHALF OF NATIONAL CHILD SAFETY COUNCIL AND NATIONAL FIRE SAFETY COUNCIL

SUMMARY

The National Child Safety Council and the National Fire Safety Council oppose the National Commission's recommendation that Social Security coverage be extended to all nonprofit employees for two reasons. First, this recommendation unfairly discriminates against nonprofit employees as compared to both state and local employees and federal employees. Second, adoption of this recommendation would have an adverse impact on nonprofit employees and their current employee benefit programs. In lieu of this recommendation, the National Child Safety Council and the National Fire Safety Council ask that nonprofit organizations presently not in the Social Security system be allowed to remain out of the system, or, failing that, that Social Security coverage be extended only to newly hired nonprofit employees.

STATEMENT

My name is Alan P. Dye and I am a partner with the Washington, D.C. law firm of Webster, Chamberlain & Bean. This law firm is Washington, D.C. counsel to the National Child Safety Council and the National Fire Safety Council.

National Child Safety Council (NCSC) and National Fire Safety Council (NFSC) are nonprofit Section 501(c)(3) educational organizations dedicated to educating children concerning fire safety and accident prevention. The two organizations, which are located in Jackson, Michigan, operate cooperatively and produce safety programs presented in elementary and high schools across the United States in cooperation with local police and fire departments. The programs of the two organizations are carried on by about one hundred employees located in the headquarters of the organizations and in the field.

The National Commission on Social Security Reform has recommended that Social Security coverage should be extended on a mandatory basis, as of January 1, 1984, to all employees of nonprofit organizations. This recommendation, if adopted by the Congress, would affect approximately one million nonprofit employees not presently covered by the Social Security system.

NCSC and NFSC are opposed to this recommendation of the National Commission because it unfairly and without justification discriminates against nonprofit employees as compared to both state and local employees and federal employees. NCSC and NFSC are not opposed to the extension of Social Security coverage to nonprofit employees in principle, but believe that nonprofit employees have been unfairly singled out for the most abrupt and drastic change in coverage. In short, NCSC and NFSC believe that the extension of Social Security coverage to presently uncovered sectors of the labor force should be done on a fair and equal basis.

With respect to state and local employees, the National Commission's recommendations would allow state and local governments which never elected to join the Social Security system or which have withdrawn from the system to remain out of the system. In contrast, nonprofit organizations which never elected to join the system or which have opted out will be required to return to the system and immediately cover all their employees on January 1, 1984.

With respect to federal employees, the National Commission's recommendations would extend Social Security coverage only to federal employees newly hired on or after January 1, 1984, but would require nonprofit organizations to extend Social Security coverage to all of their employees on that date.

NCSC and NFSC believe that fundamental fairness requires that nonprofit employees should be accorded the same and equal treatment as state and local employees or, at the very least, as federal employees. The National Commission has, in effect, recommended that the status quo with respect to state and local employees be preserved on a group basis at the employer level and that the status quo with respect to federal employees be preserved on an individual employee basis. Yet with respect to nonprofit employees, the National Commission has recommended that the status quo be destroyed for all nonprofit employees. NCSC and NFSC cannot perceive, and the National Commission certainly has not articulated, any reason for this disparate treatment of nonprofit employees.

In fact, whatever may be the reasons for phasing in coverage of federal employees and for allowing nonparticipating state and local governments to remain out of the system, there are equally good reasons for extending the same treatment to nonprofit employees. Many nonprofit organizations which are not in the Social Security system have provided alternatives to Social Security with which their employees are much happier. Adoption of the National Commission's recommendation would cause greatly increased payroll costs for these nonprofit organizations. These large increases in payroll costs would force these nonprofit organizations to drastically reduce or even eliminate current employee benefit programs and would, as a result, destroy legitimate employee expectations and engender serious employee dissatisfaction.

NCSC and NFSC each make available a section 403(b) tax-sheltered annuity program for their employees. Implementation of the recommendations of the National Commision on Social Security Reform will have a devastating effect upon the organizations by imposing a new tax amounting to a large proportion of the organizations' gross receipts, all of which are derived from small contributions by businessmen and other individuals supporting child safety education in their communities. Adoption of the National Commission's recommendations will also result in the dismantling of educational programs because of the additional financial burden proposed.

In conclusion, NCSC and NFSC oppose the National Commission's recommendation on the extension of Social Security coverage to all nonprofit employees. In lieu of this recommendation, we suggest two alternative proposals. First, nonprofit organizations which are not in the Social Security system, like nonparticipating state and local governments, should be allowed to remain out of the system. Failing that, Social Security coverage should, at the very least, be extended only to newly hired nonprofit employees in a manner consistent with the treatment of federal employees.

Mr. ANTHONY. Thank you, Mr. Dye.

Our next witness is Mr. Ruttenberg.

STATEMENT OF STANLEY H. RUTTENBERG, CONSULTANT, NATIONAL MARITIME ENGINEERS' BENEFICIAL ASSOCIATION

Mr. RUTTENBERG. Thank you very much, Mr. Chairman.

I appear here today as the result of a series of research projects which my firm has done for the Marine Engineers' Beneficial Association.

Over the past year and a half, we have been studying the financing problems of the social security system, and I am not here to endorse or to criticize the Commission report. I want to offer a form of financing the system that could substitute or supplement for the short-run proposals dealt with in the Commission report, such as extending coverage to Federal workers or taxing benefits of recipients with incomes above $20,000 to $25,000, and postponing the COLA, or moving up the tax rate to earlier years, or any of the other proposals of the Commission, and also a way of financing the system that would take care of the longer run problems for which suggestions have been made to cut benefits further in the future, raise retirement age, or even increase further the rate of the payroll tax.

It would be more realistic a concept, it seems to me, to have the system be realistic about how it was originally intended, namely, that the employers pay one half of the tax and the employees pay one half of the tax. But as a result of the tax deductions that are permitted to corporations that are not permitted to individuals, corporations pay one-third of the tax of the social security program while the employees pay two-thirds.

It seems to me that the tax deduction for employers is unfair, while a tax deduction for employees is reasonable. When one goes back to the original concept of the social security program, very few workers in 1939 paid income tax, because there was a basic tax exemption of $5,000 of income, and very few workers qualified for that. Employers had a very low rate of tax, but they got the deduction; employees did not.

If one were to go the whole way of eliminating the employer deduction as a tax deduction, and turn over the resulting revenue to the social security system, one could raise $213 billion between the years 1983 and 1989, and that relates to the $150 billion to $200 billion that the Commission talked about needing during the short-run period, and second, it would raise 1.7 percent of payroll after the year 1990, and so it would take care of the longer run problems that we are confronted with.

And not only would the elimination of the deduction for the employer tax be cost effective for the system in terms of raising revenue, but it would establish equity between employers and employees. It would establish equity between public employers who do not get the deduction because they are non-profit, and private employers who get the deduction.

It would also establish equity between large and small employers, because small employers tend to pay the lower corporate tax rates on a progressive scale, while the larger employers pay the 46 percent on the top bracket.

It would be the marginal rates that would apply here to the deduction for the employer contribution, and it would also establish equity between profitable and nonprofitable corporations. If a corporation is losing money and therefore paying no taxes, it now gets no deductions for its social security contribution. But on the other hand, if the corporation is profitable and pays a tax, it gets a deduction.

I would suggest therefore, Mr. Chairman, without criticizing the Commission's report pro or con, that one should look very, very seriously at the process of employer deductions as a means of raising the revenue which is needed to meet what the Commission described as the $150 billion to $200 billion shortfall in the 1983 to 1989 period, and to meet the 1.8 percent of payroll which was the shortfall in the years following that up through 2020 and 2050, and mind you, the $213 billion estimate is based upon the pessimistic assumptions of the actuaries of the social security system and the 1.7 percent of payroll can be taken both as the pessimistic and intermediate range concept.

I thank you very much, Mr. Chairman. I would urge very serious consideration of this concept.

[The prepared statement follows:]

STATEMENT OF STANLEY H. RUTTENBERG, ON BEHALF OF THE NATIONAL MARINE ENGINEERS' BENEFICIAL ASSOCIATION

I thank you for the opportunity to appear before you today. The testimony I am about to present is the result of research that our firm has been engaged in over the last year and a half, which has been sponsored by the National Marine Engineers' Beneficial Association. That research has looked at the options for Social Security from the point of view of financing the system, and from the point of view of benefits and costs to workers and employers. A full report on that research is available to anyone who is interested.

The Social Security system, as it now stands, contains a basic inequity in contributions collected from workers and employers. The government is taxing employers with one hand in the form of the Social Security payroll tax and giving a portion of the amount received back to the employers with the other hand in the form of reduced income taxes. The giveback is largely financed by the income taxes of the same workers who have already paid their full share of the payroll tax and who, in addition, must pay income taxes on the amount of that contribution. As a result, employers are only paying about one-third of the cost of the combined employer-employee Social Security contribution and employees are paying two-thirds.

Keeping this problem in mind, let's consider the hard won compromise of the National Commission's proposals. First, I would point to the comments of Robert Myers. He has pointed out that the mixture of higher taxes, reduced benefits and general revenue may still not be enough in the short term; it may not be adequate for program needs in 1985–87. Standby authority may still be needed for further tax increases and benefit cuts, he said. That is certainly a problem when the compromise rests on the mutual acceptance of actions nobody really wants to take. And, of course, the compromise is admittedly insufficient for the long term; future tax increases or benefit cuts will almost certainly be needed. Secondly, the Commission proposals, if implemented, would further exacerbate and compound the basic inequity in the contributions to the Social Security system that I have just outlined. The main burden of the increased funding will fall on workers.

As an alternative, I would suggest a single solution that would provide sufficient funds to finance the system in both the short and long term, namely, eliminating the deductibility of the employers' share of the payroll tax. Doing so would provide approximately $213 billion in additional revenues from 1983 through 1989, or more than enough to cover the upper estimates of need. In the long term it would provide 1.7 percent of payroll, or nearly enough to fund the estimated long term deficit. In addition, this solution would make a 50-50 split in contributions between employees and employers a reality rather than a fiction. And it would remove the existing inequities in contribution rates among different sizes and situations of employers. Allow me to explain how the inequity arises, how the National Commission proposals contribute to the inequity, and why the solution of eliminating the deductibility of the employer contribution is by far the fairest, the most equitable, and of primary importance, the most effective way to solve Social Security's current problems.

INEQUITIES BETWEEN EMPLOYEES AND EMPLOYERS

Social Security contributions are expressed as being collected 50 percent from the employee and a matching 50 percent from the employer. The 50-50 formulation, however, is a misleading one. Employers do not really contribute a full 50 percent, while employees contribute more than 50 percent. This happens because employers deduct their contributions from their income taxes while employees cannot do so, and employees, in addition, pay income taxes on their contributions.

Employers do send the full amount of their employees' and their own matching contributions to IRS. The Social Security trust funds are indeed credited with the full amount of the statutory employer and employee contributions. The rebate to the employer comes later, in the form of his income tax deduction. The cost of giving that rebate to the employer does not come from the trust funds, but is borne by general revenues. To say it another way, it is the revenues that are collected to finance the rest of the federal budget that are reduced by the employer's deduction of his share of the contributions. So in a very real sense, there always has been a general revenue contribution to Social Security—albeit an unacknowledged one.

Over the years, the burden of that general revenue contribution has been shifting increasingly to employees, as the proportion of federal budget revenues collected from corporations has declined steadily and the share provided by taxes on individuals' incomes has risen correspondingly. In 1954, corporation income taxes supplied 34 percent of all revenues (excluding employment taxes). For 1982, the corporate share was only 11 percent of general revenues. Taxes on the income of individuals now provide 71 percent of general revenues (of which at least 60 percent is borne by wage and salary earners), up from 47.5 percent in 1954. Consequently, the general revenue contribution to Social Secruity now comes in the main from income taxes paid by employees.

For example, if a medium sized, profitable corporation had a payroll of $10 million (of taxable wages below the ceiling) in 1982, its OASDI payroll taxes would have been 5.4 percent of that amount, or $540,000. Its employees would have had a like amount deducted from their paychecks. The total amount of $1,080,000 would have gone to the Social Security Trust Funds. When the time comes for the corporation to pay income tax, however, the deduction of that $540,000 as a business cost will lower its income tax liability by $248,000 (46 percent of $540,000). So the corporation's out-of-pocket expenses for Social Security contributions will only have been $292,000. The general revenue loss of $248,000 is made up by general taxpayers. But corporations are providing only 11 percent of general revenue budget receipts, while, as noted above, taxes on wage and salary income are supplying about 60 percent. So if this hypothetical corporation and its employees are representative of the average, their contributions to Social Security could be viewed as follows:

	Corporation	Employees
Initial contribution	$540,000	$540,000
Less: value of tax deduction	248,000	
Subtotal	292,000	540,000
Share of general revenue loss replaced by income taxes	27,000	149,000
Total adjusted contribution	319,000	689,000

As was mentioned, the corporation's out-of-pocket contribution is $292,000, while that of the employees is $540,000. The general revenue loss is $248,000. Corporations replace 11 percent of that general revenue loss through their corporate income taxes, or $27,000. Employees replace 60 percent of that general revenue through their income tax payments, or $149,000. (The balance of the general revenue loss is made up by taxes levied on interest, capital gains, "mixed source" income, excise taxes, estate and gift taxes, etc.) The total contribution from the corporation comes to $319,000, while that from the employees comes to $689,000. As can readily be seen, in this example the employee's adjusted contribution is more than twice that of the corporation's.

The combination of the income tax deduction available to employers, and the skewed source of the general revenues—largely collected from workers—that replace the taxes lost through that deduction results in employers really paying about one-third of the cost of Social Security while employees pay about two-thirds.

INEQUITIES AMONG DIFFERENT TYPES OF EMPLOYERS

The general revenue subsidy to employers now varies inversely with their ability to pay. If the employer is a corporation paying income tax at the 46 percent rate, then the employer recoups 46 percent of his contribution. If the employer is a small corporation paying tax at the 15 percent rate applicable to taxable income of less than $25,000, it recoups 15 percent of its share of the Social Security contribution. If the employer is an unincorporated business, the percentage recouped depends on the owner(s)' individual tax bracket(s). If the employer is losing money and therefore has no tax liability (and the loss is greater than the amount that he deducts because of Social Security contributions), then the employer actually pays the full amount of the "employer share." If the employer is a state or local government, a religious organization, or any other type of non-profit organization, then that employer also pays the full amount of the employer's share, because there is no tax liability that can be reduced by a deduction.

COMMISSION RECOMMENDATIONS

If the recommendations of the Commission are adopted, these inequities will be reinforced and extended.

Consider, for example, the proposal to tax 50 percent of benefits if a taxpayer has other income of $20,000, or $25,000 for a joint return. While this is only applicable to a limited segment of taxpayers, the theory behind all proposals to tax one-half of benefits is the same. It rests on the proposition that employees and employers each pay one-half of the contributions to the system. Since the one-half share of contributions paid by the employer during the employee's worklife has never been taxed, the theory goes, it should be taxed when it is received. The reality of the situation, however, does not support this theory. The worker has already paid a good share of what was supposed to be the employer's half, because the bulk of the general revenue loss created by the employers' income tax discount on their contributions was replaced by income taxes of workers. Until such time as this basic inequity is remedied, it is unconscionable to ask any worker to again pay taxes—this time on his or her benefit.

The fact that the benefit taxing provision would, according to the Commission, only affect about 10 percent of the beneficiaries does not make it any more fair or reasonable. Some of these beneficiaries would be maximum earners, who, under the redistributive aspects of Social Security, already receive lower replacement ratios and have lower ratios of benefits to contributions than lower earners. Our research shows that taxing one-half of benefits will lower the benefit to contribution ratios for these earners by 13-14 percent. And that analysis leaves aside the fact that these higher earners would have already paid a higher rate of income taxes on their own Social Security contributions and also a larger share of the general revenue replacement for the employer contributions. In short, in addition to the problems raised by others in relation to this proposed provision—those of discouraging the accumulation of savings and investments at a time when such accumulations are badly needed by the economy and are being encouraged by other legislation, and the troublesome "notch" problem—this provision adds inequity on top of inequity. It might initially begin as a large inequity for a small group, but could easily tend to expand as time and inflation puts more and more taxpayers within the affected group.

The proposal to cover newly hired Federal employees and employees of nonprofit organizations, and to ban withdrawals by state and local employers is still another example of the interaction of the basic inequity of the current employer and employee contributions and the Commission proposals. As the system now stands, nonprofit organizations and state and local governments that participate in the system pay a disproportionate share of the total burden, compared to private employers. They have no tax liability against which to deduct the employer share of the contributions, so they pay the full amount. (It is little wonder these employers have found the system less than attractive.) In a sense, the same will be true of the federal government as employer. In fact, general taxpayers—largely workers—will be doubly hit in this regard. It is they who will ultimately pay the full share of the employer contribution for federal government workers. In addition, it is they who will have to face the funding for the huge unfunded liability of the current Civil Service Retirement System. With new employees either out of the CSRS or participating at a reduced level, the largely pay-as-you-go method that the CSRS has depended upon to avoid funding of its $499 billion unfunded liability will be even less adequate than it is now. A greater share will have to be borne by the taxpayer.

Finally, any increased payroll tax, and that includes the moving up of the scheduled tax, inevitably suffers from the same basic inequity. It will be paid not half and half, but two-thirds by workers and only one-third by private employers. Giving the refundable tax credit for the part of the employee rate that has been rescheduled is only a very partial remedy to the inequity. Like the employer deduction, this is just another way of transferring general revenue to the Social Security Trust Fund. To the extent that other demands on general revenue are not lessened, however, the taxes "lost" must somehow be "replaced". And given the skewed nature of the tax base, the replacement will be made by the same wage and salary earners who received the credit. The best that can be said is that there will be some progressive redistribution of the burden among wage and salary earners. But given that high earners would be the ones affected by the proposal to tax benefits, the question of how much can be dumped upon one group has to be raised. It would be far better if the employers were bearing their fair share of the costs.

THE EQUITABLE SOLUTION

In contrast to all of these burgeoning inequities and problems, eliminating the income tax deduction for the employer's contribution would accomplish three major goals: Generate sufficient new revenues to finance the system now and in the future; Create equity between employees and employers; and Create equity among different types of employers.

If employers were to be treated the same as employees, their Social Security contributions would not be deductible as a business expense. As a result, the amount of those contributions would come down to the bottom line of their income tax returns as taxable income and be taxed.

The additional taxes collected from employers because of this change could be separately calculated and earmarked for transfer to the Social Security Trust Funds. Although it is difficult to calculate the exact amount of additional revenue that could be expected, our conservative estimates suggest that the change would generate additional revenue amounting to about 1.4 percent of payroll now, rising to about 1.7 percent of payroll in 1990 and beyond (under current tax rate schedules). This translates to approximately $213 billion in additional revenues from 1983 through 1980, based on the Alternative II pessimistic assumptions, or more than enough to meet anticipated needs. And for the long term, the 1.7 percent of payroll is very close to sufficient to fully fund the estimated deficit. It is certainly enough to allow postponing the fashioning of any additional revenue sources to a time 30 to 40 years hence, by which time the course of demographic and economic events will determine whether they are needed.

While providing a single solution to the financing problems of the system, this proposal would greatly improve the equity of the Social Security contributions. Eliminating the employer's income tax deduction would end the worker-subsidized general revenue contribution and restore the balance between the employers' and employees' total social security-connected payments.

Finally, if the deductibility of the employer's contribution is eliminated, every employer would pay the full amount of the Social Secuirty payroll tax that is levied on employers. The disparities between private and public, profit and nonprofit, and large and small employers would disappear. A disproportionate burden would no longer fall on public and nonprofit employers.

With the amount of the contribution becoming taxable as a result of the elimination of the deduction, the amount of income taxes paid on the Social Security contribution by different types of private employers would continue to vary with their circumstances. But the variation would be more in accordance with their ability to pay, that is, large corporations would pay 46 percent, and those with smaller taxable incomes would pay the lesser rates to which they are subject. Where the employer tax is now regressive because those with the highest incomes pay the lowest true rate of payroll tax, taxing the contribution would move in the direction of progressivity.

Mr. **ANTHONY**. Thank you, Mr. Ruttenberg.

Mr. John is our final witness on this panel, and then we will have the opportunity to ask questions of the entire panel. Mr. John.

STATEMENT OF WALTER JOHN, EXECUTIVE DIRECTOR, ORGANIZATION OF PROFESSIONAL EMPLOYEES OF THE U.S. DEPARTMENT OF AGRICULTURE

Mr. John. Thank you, Mr. Chairman.

Mr. Anthony. Let me caution you. Sometimes these microphones do not pick up unless you get them directly in front of you and close to you. We have a difficult time in hearing.

Mr. John. Thank you.

I am Walter John, executive director of the Organization of Professional Employees of the Department of Agriculture, informally known as OPEDA.

My purpose today is to express our organization's opposition to mandatory social security coverage of Federal employees. But before I do that, I want to assure you that our opposition is not because of disrespect for the social security system.

We have a very high regard for what social security has done, particularly for millions of low-income persons in our Nation. I would go further and say that it is one of the most stabilizing influences in our economy.

If the Government had not established and nurtured that program and many other economic and regulatory safeguards following the Depression of the thirties, I venture to say that our country would have been in another deep depression by this year of 1983.

I want to say further, however, what you probably have heard many times in these hearings. It is that social security is not, and never was intended to be, a retirement program, even though hundreds of thousands of our elderly citizens are having to depend on it as such.

The main reason Government employees are wary of being placed under social security coverage is that they are fearful of losing their retirement program.

Most of the employees in the Federal Government are professionals. A large percentage of them have college degrees after years of study. The others have developed special skills through various kinds of employment and training. They are probably the best qualified and most widely experienced large group of workers in the world today.

They are dedicated to public service and have devoted their careers and most of their lives to Government programs. They share their spare time and their skills with their communities, their schools, their local governments, and their organizations. They also rear families, pay taxes, and vote.

They took jobs in the Government because they are interested in helping people. And during a brief period in the sixties, they gained long overdue respect when the Congress established a formula for making their pay comparable with that of private industry. They also put a lot of faith in having a retirement program that would give them security in their senior years. That outstanding program has taken 62 years in the building.

Pay comparability did not last long. Employees' pay has been falling behind the pay of workers in industry for most of the last dozen years. It is now more than 20 percent below the private industry level.

One of the few good benefits left for Federal employees is their retirement program. And now, it is being very seriously threatened.

We have heard much talk about social security being a safety net, and it certainly is that for many of its 35 million participants. The civil service retirement program is the safety net for Federal and postal employees.

The idea of social security coverage for Government workers has been rejected several times by the Congress. I recall well the last time it was proposed. In the summer of 1977, the Social Security Subcommittee of the House voted 8 to 1 to put Federal employees under social security. It raised a great scare among employees. Fortunately for them, the Congress voted to have a 2-year study made of the situation.

Unfortunately, however, the 2-year study did little more than to say "put Federal employees under social security." Now we have the results of another study by the National Commission on social security which is more explicit in its recommendation of social security coverage for Federal workers.

The hangup for employees in all of these actions is that they have not been given a clear picture of what they would have left in the way of retirement benefits. Social security certainly is not adequate in that respect.

What else will there be to fill that big gap, if the 62-year-old civil service retirement fund is sacrified to die, even though it has been declared sound and good for 100 years more?

Our plea to the Congress is, do not take away our safety net unless or until you have arranged for a suitable substitute. And to arrange for that substitute, we hope you will call on employee representatives to advise and assist in determining what is adequate.

What the 98th Congress provides in the way of retirement benefits and Federal pay will help determine what kind of public service this Nation will have in the years ahead. It may well make the difference between having a highly respected Government, as we have had for 100 years under the civil service system, or a return to the spoils system into which the Nation degenerated during its first 100 years.

We thank you, Mr. Chairman, for the privilege of presenting this testimony before your subcommittee.

[The prepared statement follows:]

STATEMENT OF WALTER JOHN, EXECUTIVE DIRECTOR, ORGANIZATION OF PROFESSIONAL EMPLOYEES OF THE U.S. DEPARTMENT OF AGRICULTURE

Thank you, Mr. Chairman. I am Walter John, Executive Director of the Organization of Professional Employees of the U.S. Department of Agriculture, informally known as OPEDA.

My purpose today is to express our Organization's opposition to mandatory social security coverage of Federal employees. But before I do that, I want to assure you that our opposition is not because of disrespect for the Social Security System.

We have a very high regard for what social security has done, particularly for millions of low-income persons in our Nation. I would go further and say that is is one of the most stabilizing influences in our economy.

If the Government had not established and nurtured that program, and many other economic and regulatory safeguards following the depression of the 1930's, I venture to say that our country would have been in another deep depression by this year of 1983

I want to say further, however, what you probably have heard many times in these hearings. It is that social security is not, and was never intended to be, a retirement program, even though hundreds of thousands of our elderly citizens are having to depend on it as such.

The main reason government employees are wary of being placed under social security coverage is that they are fearful of losing their retirement program.

Most of the employees in the Federal Government are professionals. A large percentage of them have college degrees after years of study. The others have developed special skills through various kinds of employment and training. They are probably the best qualified and most widely experienced large group of workers in the world today.

They are dedicated to public service and have devoted their careers and most of their lives to government programs. They share their spare time and their skills with their communities, their schools, their local governments, and their organizations. They also rear families, pay taxes, and vote.

They took jobs in the government because they are interested in helping people. And during a brief period in the 60's, they gained long overdue respect when the Congress established a formula for making their pay comparable with that of private industry. They also put a lot of faith in having a retirement program that would give them security in their senior years. That outstanding program has taken 62 years in the building.

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We have heard much talk about social security being a safety net, and it certainly is that for many of its 35 million participants. The Civil Service Retirement Program is the safety net for Federal and postal employees.

This idea of social security coverage for government workers has been rejected several times by the Congress. I recall well the last time it was proposed. In the summer of 1977, the Social Security Subcommittee of the House voted 8 to 1 to put Federal employees under social security. It raised a great scare among employees. Fortunately for them, the Congress voted to have a 2-year study made of the situation. Unfortunately, however, the 2-year study did little more than to say "put Federal employees under social security." Now we have the results of another study by the National Commission on Social Security which is more explicit in its recommendation of social security coverage for Federal workers.

The hangup for employees in all of these actions is that they have not been given a clear picture of what they would have left in the way of retirement benefits. Social security certainly isn't adequate in that respect. What else will there be to fill that big gap, if the 62-year-old Civil Service Retirement Fund is sacrificed to die, even though it has been declared sound and good for a hundred years more?

Our plea to the Congress is—Don't take away our safety net unless or until you have arranged for a suitable substitute! And to arrange for that substitute, we hope you will call on employee representatives to advise and assist in determining what is adequate.

What the 98th Congress provides in the way of retirement benefits and Federal pay will help determine what kind of public service this Nation will have in the years ahead. It may well make the difference between having a highly respected government, as we have had for 100 years under the Civil Service System, or a return to the spoils system into which the Nation degenerated during its first hundred years.

Social Security coverage of new Federal employees would be a no-win situation. The Social Security Administration, the Federal Government, the U.S. taxpayers, and Federal employees, all would be losers in such a move over the long run.

The Social Security Administration (SSA) would gain a few billion dollars in taxes for the first several years but in the long-run it would lose money of Federal employees. The Social Security Administration has shown by its own estimates that, by the year 2050, it would be losing $7 billion a year, and the net loss to the Federal

Budget would be about $200 billion that year, for coverage of all Federal and postal employees hired after 1983.

A deputy commissioner of SSA testified before a Congressional committee in 1977 that bringing public employees under social security would not reduce social security costs, would not reduce the social security deficit, and would not slow the planned future increases in the social security taxes.

The biggest loser in such a deal would be the Federal Government. It would lose in three different ways. First of all, keep in mind that the Government as the employer would be required to put up a dollar for every dollar in Social Security taxes paid by each employee hired after social security coverage starts. That cancels out the employee's social security taxes as being any help on the Budget or on a deficit. Secondly, it loses the contributions that new employees would have made into the Civil Service Retirement Fund, and thirdly, the Government after a number of years would start losing taxes which that employee would pay on his full annuity after he retired.

Let's look first at what the switch to social security coverage of new employees would cost the Government in closing out thre Civil Service Retirement Fund. The table below tells in very dramatic fashion what that cost would be. In about 20 to 25 years, the employee Contributions, Investment Income, and Fund Balance all would be zero.

CIVIL SERVICE RETIREMENT SYSTEM INCOME, BENEFITS AND FUND BALANCES: CLOSED SYSTEM FOR CURRENT WORKERS UNDER EXISTING FINANCING LEGISLATION FOR SELECTED YEARS

[Dollar amounts in billions]

Year	Employee contributions	Employer contributions	Investment income [1]	Benefits	Fund balance [1]
1983	$4.0	$20.5	$6.7	$22.1	$103.2
1984	4.1	22.1	7.2	24.6	112.0
1985	3.7	23.3	7.7	27.0	119.7
1986	4.1	25.0	8.1	29.5	127.5
1987	4.0	26.3	8.5	32.0	134.4
1988	3.9	27.5	8.9	34.3	140.4
1989	3.8	28.5	9.1	36.5	145.2
1990	3.6	29.4	9.3	38.7	148.8
1991	3.4	30.4	9.4	40.9	151.1
1995	2.2	34.4	8.9	50.1	143.3
2000	1.4	41.1	6.5	62.7	94.1
2005	1.2	49.7	0.9	78.1	(10.7)
2010	0.0	58.9	(9.0)	94.1	(193.4)
2015	0.0	70.7	(23.7)	104.6	(453.2)
2020	0.0	83.1	(41.8)	105.9	(761.3)
2025	0.0	95.1	(61.3)	99.4	(1,087.1)
2030	0.0	105.8	(80.4)	86.1	(1,400.8)
2035	0.0	114.6	(97.4)	67.3	(1,673.4)
2040	0.0	120.7	(110.6)	44.4	(1,878.1)
2045	0.0	124.4	(119.3)	25.0	(2,007.6)
2050	0.0	126.1	(123.9)	10.7	(2,073.9)

[1] Amounts in parentheses are negative (minus).

Source: These projections were developed by Edwin C. Hustead, FSA, former Chief Actuary of the Civil Service Retirement System; he is now Director, Actuarial Consulting Services, Hay Associates.

As Benefits keep growing, and with no other source of income, the Employer (Government) contributions column would continue to grow to astronomical figures.

The estimates of that growth in costs to the Government by the expert who was Chief Actuary of the U.S. Civil Service Commission for many years would total nearly $3 trillion dollars ($3,000,000,000,000) by the year 2030, and $5 trillion by 2050. This averages out to about $75 billion a year that the Government would need to pay out to close out the Civil Service Retirement Fund starting in 1984.

If all new Federal and Postal employees were to continue regular contributions into the Civil Service Retirement Fund, the cost to the Government over a 70-year period would be cut to almost one-half of the $5 trillion figure. As I said earlier, the Fund, as now being financed, would be sound for 100 years and more.

A large part of that loss would be the employee contributions to that Civil Service Retirement Fund, if all new hires go under social security. Estimating the number of new employees at 150,000 a year at an average salary of $25,000 would mean the loss of 7 percent of that amount from the Fund, or $262 million the first full year, and adding to it a similar amount which would be going into social security instead of the retirement fund. This would total up to another astronomical figure over a long period. In addition to losing that amount in retirement contributions, the Government would be contributing a lesser amount to the Social Security Program as matching funds for all new Federal and Postal employees.

The third loss factor would occur when the new hires began reaching retirement age. Under present conditions, the Government receives about $2 billion a year in income taxes from its retirees. That, too, would pass away as social security retirees succeed retirement fund retirees.

All of these losses to the Government also are losses to the taxpayers, because their taxes would either help to foot the bill or to pay interest on larger deficits.

So that brings us again to the fourth participant group in this national challenge—Federal and postal employees. Their lossed, or gains, in this proposal are yet to be determined.

But present employees and retirees are extremely fearful that their retirement benefits may be seriously diminished. Once the Civil Service Retirement Fund is depleted, they would have no firm assurance that each Congress would appropriate the full amount needed to maintain the current program of benefits.

And what would be provided as a retirement program for new employees who are put under social security coverage? Until those two main questions are answered satisfactorily, employees would consider themselves to be in the losing column.

We welcomed the recent news item quoting Congressman William D. Ford, Chairman of the House Post Office and Civil Service Committee, in which he assured both current and new employees that appropriate legislation would be introduced to deal with these points. What we are anxious to receive now is definite assurance on these subjects from the full House and the Senate.

We are indeed grateful to you and your Subcommittee, Mr. Chairman, for the privilege of discussing what we see as additional costs and possible losses in benefits in mandatory social security coverage of Federal employees.

Mr. **ANTHONY**. Thank you, Mr. John.

Mr. Thomas, do you have questions? Or would you like Mr. Gradison to go first?

Mr. **THOMAS**. I have nothing.

Mr. **GRADISON**. I have no questions, Mr. Chairman.

Mr. **ANTHONY**. Mr. Jacobs.

Mr. **JACOBS**. I want to thank these witnesses for their contributions. This is not an easy package to deal with, and I do not know, I might ask Mr. John, do you know what the Federal Treasury contribution would or will be in the case that new hires are covered by social security, what the general Treasury contribution would be to the civil service retirement program per annum over the next few years if new hires are covered by social security?

Mr. **JOHN**. It would cost the Government about an average of $75 billion a year.

Mr. **JACOBS**. I beg your pardon?

Mr. **JOHN**. About $75 billion a year average over the next 70 years.

Mr. **JACOBS**. Strictly as a consequence of the coverage of new employees?

Mr. **JOHN**. Well, that is about double what they would have to put in if they could go ahead as they are now.

Mr. **JACOBS**. Thank you.

Mr. **JOHN**. In other words, there is a table put together by the chief actuary of the Civil Service Commission which says that by the year 2050, if the newly hired employees are put under social security, the Federal Government will be required to pay out approximately $5 trillion.

Mr. JACOBS. That is it?

Mr. JOHN. $5 trillion.

Mr. JACOBS. Thank you.

Mr. JOHN. Now, about half of that would be saved if they could go on being under the present system.

Mr. ANTHONY. Mr. Thomas, you may inquire.

Mr. THOMAS. Thank you, Mr. Chairman.

I would like to thank the panel for their testimony. I will just try to go in the order that you came. Some of you I would like to have comment on the same question.

Mr. Bannister, basically, you supported the Commission's proposal, and then you also advocated support for one of the options in the outyears, and that was the increase in age to 66. You might have noted in Mr. Schulz's testimony he advocated 68, which on an actuarial basis would more accurately project the working years versus leisure years ratio from 1940 out into the year 2025. Was it because that was the recommendation by the Commission, and that that would create the least political disturbance, if we simply bought one of the two options that they gave us, or do you think 66 is reasonable?

Now, when I asked Mr. Greenspan why he came up with 66, his answer was very simple. When they finished with their short term they had 0.58 percent of payroll still to find, and so in looking for it, 66 was all they needed to get the money, so it was a financial decision to go to 66, and I would like to know your reasons why you support the 66 position.

Mr. BANNISTER. Well, thank you.

I may have misspoke. I do not believe I suggested the 66. What was inherent in the statement was that there be some adjustment in the age requirement down the road, but I did not specify exactly what that age requirement might be.

Mr. THOMAS. On page 3 of your testimony, you said the recommendations of seven of the Commission members with regard to the retirement age should be implemented. My assumption is then that you did not mean the specific program that the Commission recommended.

Mr. BANNISTER. That is correct. I think, as I said at the outset, that we do not believe ourselves to be experts on the issue of social security, but because of the impact, we believe, solving this problem has on both the budget and the deficit picture is one of major interest to the housing industry.

Mr. THOMAS. Mr. Schulz, in your testimony you indicated a point that we fail to emphasize over and over again, and that is that social security was never meant to be a total retirement pension program, that it was to be a supplemental program, but then you go on, and on page 6 you indicate that you support, including all of the Federal, State, and local government employees and the nonprofit employees. Do you have any suggestions in terms of what we might do, and this would go then to Mr. John's comment on what we might do for those folks who would ordinarily have been under a pension program like the civil service program if we include them in social security?

Mr. SCHULZ. Well, one, I would immediately fully vest them in the plan such as would happen if you canceled a plan under ERISA so they would not lose any earned credit to date. Second, it is my belief, according to the Wall Street Journal, that the Federal employees' plan is presently about $500 billion underfunded, and the actuaries project by adding these employees into the social security system a cost savings in the long term.

So, I question the fact that there is a massive loss of funding somewhere by including these people. Also I have never heard of anything as ridiculous as a phaseout of 45 years, which is in effect what you would be doing if you allowed some of those people presently under the Federal, State, or public plans to work out their total career to normal retirement date under the existing plan.

It is customary when you make a change in the retirement plan to have some bridging with some phasein, but I should think a 5- to 10-year period would be totally adequate if you totally vest them in their present earned right.

Mr. THOMAS. One last question, Mr. Chairman.

Do any of the panel members want to react to the suggested solution of Mr. Ruttenberg in terms of removing the employer tax deductible aspect? Does anyone want to respond to that?

Mr. SCHULZ. Yes, I would like to react to that. That is basically just going to increase inflation. Obviously, the companies are going to raise the price of the products to cover that. I do not see that as being a long-term solution. It is just another form of taxation and another impact on inflation.

Mr. RUTTENBERG. May I respond to that, Mr. Thomas?

Mr. THOMAS. Very briefly, yes.

Mr. RUTTENBERG. Very briefly. It is clear that with the shift in the corporate burden of taxation, if one looks at the year 1954, 34 percent of the total Federal revenues came from corporations, while in 1981, it was reduced to 11 percent. With the 1981 tax bills that were passed, the ACRS as well as others, the total burden upon corporations has been reduced. I do not believe that restoring equity between a 50-percent contribution from employers, nondeductible, and 50 percent contribution from employees would be inflationary in any sense, if one really takes into consideration seriously what has happened to the corporations' tax burden over the years.

Mr. THOMAS. Mr. Ruttenberg, very briefly, the problem I have with that concept is that you ultimately have to ask yourself where the corporations get their money and what they do is, they either offer goods or services, and if you increase their costs, they are simply going to increase the cost for the goods and services, and also, when you talk about the projections in terms of being pessimistic, remember over the last several years we have gone far beyond even the most pessimistic analysis of where we were going to be, and that is why we are here.

So, I would try to look at any pessimistic projection as possibly not pessimistic enough.

Thank you, Mr. Chairman.

Mr. RUTTENBERG. Well, the pessimistic assumptions that were used by the actuaries of the social security system are just those that I am using, and nothing else. They are not my pessimistic assumptions.

Mr. ANTHONY. Thank you, Mr. Thomas.

I have two basic questions that I would like to ask and get a short response from each one of the witnesses. Each of you have very expertly taken on each section of the Commission's report that you did not particularly like, representing your own special interest, and that is exactly the way the system works. That is the reason you were asked to come here and to represent your interests.

But no one has really addressed maybe the gut question that this committee and the Congress is going to have to address, and that is, if your viewpoint is not agreed with, in other words, if each one of your ideas that you have testified on does not reach a majority of the members of this committee nor a majority of the Members of the Congress, I am curious as to whether or not you in your official capacity will ask your organization to throw its support behind the consensus package that is put together by the Congress and whether or not you think that this committee should address the long-term solution or only address what has been called the short-term solution.

You may respond from left to right. Would you support the package if your ideas are not accepted, and do you think the Congress ought to address long term as well as short term?

Mr. BANNISTER. Well, basically, I think we are doing that, Mr. Chairman. We are supporting the bipartisan recommendations. We do not necessarily like them that much, but for the sake of a bipartisan compromise to move forward on this subject, we are supporting those recommendations, and if a consensus comes up that is in the neighborhood of the recommendations, yes, we would support it.

And No. 2, as far as the long-range issues, we think they ought to be dealt with as quickly as possible in this package.

Mr. ANTHONY. Mr. Schulz.

Mr. SCHULZ. Given that specific question, ASPA would support the Commission, although we do not feel that it went far enough, but at least it is progress, and it is going in the right direction.

Mr. ANTHONY. What about the long term versus short term?

Mr. SCHULZ. We are far more unhappy with the long-term recommended solutions than we are with the short-term ones. We would like to see it resolved permanently as opposed to every few years having a crisis.

Mr. THOMAS. Mr. Chairman, could I ask a friendly amendment in terms of their responses, that if you are supportive of the package, when do you ask the long-term question, if you were forced to make a choice between the two options that we are given, increased payroll taxes or increased retirement age, could you respond to that as well?

Mr. SCHULZ. For ASPA, we definitely would go with an increased age and not an increase in taxes.

Mr. BANNISTER. The same for the National Association of Home Builders.

Mr. ANTHONY. Mr. Leffler.

Mr. **Leffler**. We would support in the end the bill that comes out of this committee, except that we would ask that the committee take a careful look at some of the technical ramifications of the taxing provisions, because I really believe that perhaps not sufficient study was given to exactly how that will work, given the different forms of the manner in which independent contractors, for example, do business. They can be a sub S corporation. They can be a regular corporation. They can be independent. And the tax package would have to address that, as well as have a handle on retirement benefits for us to say we approve the whole thing, but obviously we want a bill that will solve the short-term problem.

For the long term, unquestionably, we would support lengthening the age of retirement as opposed to additional financial burdens to those who are working for the very simple reason that down the road we are going to have about two and a half people at work for every one on social security, and that just cannot happen.

Mr. **Anthony**. I have one short additional question for you. You obviously are against taxation of benefits, and you think that the self-employed are not being treated fairly. If the self-employed are required to pay in the full 100 percent, and then the Congress either gives them a refundable tax credit or a deduction, which do you support? Which does your organization support, the refundable tax credit or the deduction? Or have you taken a position on that?

Mr. **Leffler**. Well, we would support the Commission's proposal for the future. That is where they get, as I understand it, where they would get a credit against income tax for half of the amount that would be paid. In other words, as I understood it right now they pay two-thirds. They would be paying the full social security tax, whatever level that would be, and 50 percent of the tax they pay would be deductible, as I read the report.

Mr. **Anthony**. Well, we can clarify that for the record. It is my understanding the Commission recommended a deduction rather than a credit, and the National Association of Realtors have come before the subcommittee asking for a 25-percent refundable tax credit. The NFIB have gone on record supporting a deduction.

Inasmuch as you represent a great deal of self-employed individuals, I was just curious whether you came down on the refundable tax credit side or the deduction side.

Mr. **Leffler**. Well, the deduction I feel in all cases is more equitable than credits, because it goes over the gamut of income a lot better.

Mr. **Anthony**. Fine, and inasmuch as my time has also run out, and I am trying to keep us on schedule, just if the other four could just quickly respond as to whether or not you would support the package, and whether you think this Congress should address long term versus just a short term.

Ms. **Goshy**. I believe the Commission should address the long term and increase the retirement age to 68 or whatever they feel is appropriate beyond 65. As far as would we support it, we would certainly support it and we currently support the Commission's efforts. However, we would continue to influence the Commission to consider us as being treated equitably with the Federal, State, and local employees.

Mr. **Anthony**. Mr. Dye.

Mr. DYE. I think our people believe that the Congress ought to deal with the long term. In terms of whether they would support a bill which did not phase in the nonprofit employees, I think they would have a hard time. Though they support the thrust of the Commission's recommendations, I think our people would have a hard time supporting legislation which phased in all employees that are newly covered except nonprofit employees, which they simply do not think is fair.

Mr. RUTTENBERG. Mr. Chairman, I, like everybody else, do not like the Commission report, but it is a compromise between various factions, and therefore it probably ought to be supported, but I point out that Bob Meyers, the executive director of the Commission, has recently been quoted as saying that there is going to be a shortfall even in the 1983 to 1988 period, and second, as the Commission pointed out, they have provided for only two-thirds of the shortfall over the outer years. Therefore, there is this shortfall in the short run. There is the shortfall in the outer years, and I would urge the Congress to very seriously consider the concept of eliminating the corporate tax deduction because there is no justification for it. On the other side of the coin, the individual employees are the ones who are bearing the almost entire burden, almost the entire burden of the recommendations. Increased taxes, yes, but corporations pay only one-third and individuals pay two-thirds of the total.

On taxing retirement benefits, or retirement age extension, or whatever the concept is, it is the employees that are bearing the burden and not the employers.

Mr. ANTHONY. Thank you.

Mr. John.

Mr. JOHN. We have no objection to the other features of the recommendations. Our concern is what are they going to offer us as a retirement program if they put us under social security? That is the danger.

Mr. ANTHONY. So basically you are saying you do not trust Congress and you want Congress to prove that they can be responsible and not hurt your benefits if we bring in new hires under Federal—well, you know, based upon our past track record, maybe you have a reason not to trust us. But hopefully we can act responsibly and solve this problem at the same time and give you some assurance that we are not going to undermine your civil service retirement program.

Well, the committee's thanks for your testimony and your appearance here today.

Mr. FOWLER [presiding]. The last panel today is the National Taxpayers Union, James Davidson; Public Citizen's Congress Watch, Gene Kimmelman; One Tax Alliance, Samuel Greenberg; Ed Haislemaier; Haeworth Robertson, managing director of William Mercer; and David G. Harris of Washington, D.C.

Gentlemen, you heard the rules. We will accept any and all written testimony that you have prepared, but if you will summarize your testimony to the greatest possible extent, we would appreciate it. Though we usually hear from the left first, let's hear from the right first this time.

Mr. Robertson, would you like to start off by stating your name and your association, and proceed as you would like?

STATEMENT OF A. HAEWORTH ROBERTSON, MANAGING DIRECTOR, WILLIAM M. MERCER, INC.

Mr. ROBERTSON. Yes. I missed the rules. Do we have 5 minutes?

Mr. FOWLER. Yes, sir.

Mr. ROBERTSON. Mr. Chairman, distinguished members of the subcommittee, my name is Haeworth Robertson. I was chief actuary of the Social Security Administration from 1975 to 1978. I am currently managing director of William M. Mercer, Inc., an international firm of employee benefit and compensation consultants. My complete written statement has been submitted for the record.

Mr. FOWLER. And it will be made a part of the record.

Mr. ROBERTSON. The social security system has several very important problems. The National Commission on Social Security Reform has made a series of recommendations that do not decisively resolve any of these major problems.

Mr. THOMAS. Mr. Robertson, could I ask you to move a little closer to the microphones? They do not pick up your sounds unless you are almost swallowing the mike.

Mr. ROBERTSON. The Commission's proposals would, if we are fortunate, close the gap between income and outgo under the OASDI program for the 7-year period 1983–89. The proposed changes do not allow, however, sufficient margin for adverse economic conditions. Experience shows that 7 uninterrupted years of good times may be too much to expect.

The Commission's proposals do not resolve the longer range problems of the OASDI program. Neither do they resolve the short-term problems or the longer term problems of medicare. The taxpayer is not interested in the niceties of whether the Congress resolves the OASDI problem, the DI problem, the HI problem, or the SMI problem, or any combination of them.

To the taxpayer, social security is one large system for which one large tax is paid. The quickest way to destroy any remaining confidence of the public in social security is to ignore the enormous long-range problems, to simply enact the Commission's proposals, and to give one more false assurance that the system is soundly financed once and for all.

We must not delude ourselves into believing that the proposals, if adopted, would truly resolve any of social security's major problems. At the most, adoption of the proposals would give us another 2–5 years, if that long, to develop real solutions.

I would direct your attention to an appendix to the report of the National Commission. Hidden away in appendix K, table 7B, on page 72 is a statement that the cost of the OASDI and the HI program would rise to 28 percent of taxable payroll in the year 2030 under the intermediate cost assumptions. If you move to table 7C on page 73, you will find the report suggests the cost would be 6 percent higher than this if pessimistic assumptions were used for the OASDI program.

The report does not estimate the further increase in the hospital insurance costs if they were projected under pessimistic assumptions, but if they were, it would indicate another 4 percent increase, bringing the total cost of the OASDI HI program to about 38 percent of taxable payroll by the year 2030.

By midcentury, this total cost would become 46 percent. Furthermore, the SMI program would add another 5 percent of payroll, and the total social security program would cost over 50 percent of taxable payroll.

For a graphic illustration of these startling costs, I refer you to page 8 of my written statement, a chart derived from chapter 7 of my book, "The Coming Revolution in Social Security," first published in May 1981. The costs shown in this chart are in substantial agreement with the costs that are published in the National Commission report, insofar as they are, in fact, published.

Before the Congress takes any action on social security, I would urgently suggest that this subcommittee obtain the most recent projections of income and outgo under the OASDI and HI and SMI portions of social security over the next 75 years, the remaining lifetime of today's youngsters to whom we are promising benefits. The projections should be made under the same range of assumptions, optimistic to pessimistic, used by the board of trustees in its annual reports.

An impartial examination of these projections of income and outgo would demonstrate clearly the enormity of the long-range financial problems, as well as the fact that we have promised more benefits than the taxpayers will be willing and able to finance, and that we must begin now, not later, to redesign social security.

Mr. Chairman, I would conclude with a statement that might be considered somewhat audacious, but it reflects my most sincere belief. If this subcommittee is not willing to obtain and publicize estimates of the long-range costs of all parts of social security under pessimistic as well as optimistic assumptions to determine whether or not Congress can confidently assure the public that the present type and level of benefits will, in fact, be paid as promised, then it has no alternative, if Congress is to maintain its credibility, but to issue a statement to the public as follows:

The National Commission on Social Security Reform presented long-range cost estimates for only part of the social security program. A complete array of cost estimates would have indicated a total cost of as much as 40–50 percent of taxable payroll by the time the baby boom generation retires, according to actuaries who specialize in demographic and economic projections. Such costs may well be higher than taxpayers will be willing and able to sustain. Nevertheless, this subcommittee, which is responsible for maintaining a sound social security program, has not reviewed and considered the estimates of the full costs of the social security benefits currently promised, and is therefore unable to say with any degree of certainty that the benefit promises now being made to millions of today's taxpayers will, in fact, be honored.

Mr. Chairman, if Congress is not willing to examine thoroughly the cost implications of its promises, it has no right to make such promises.

Thank you for considering my testimony.

[The prepared statement follows:]

STATEMENT OF A. HAEWORTH ROBERTSON, MANAGING DIRECTOR, WILLIAM M. MERCER, INC., WASHINGTON, D.C.

Mr. Chairman and distinguished Members of the Subcommittee, my name is A. Haeworth Robertson. I served as Chief Actuary of the Social Security Administration from 1975 to 1978, a period during which the longer-range financial problems of Social Security first became evident. I am currently a Managing Director of William M. Mercer, Incorporated, an international firm of employee benefit and compensation consultants.

My views do not necessarily represent those of my employer or any other organization with which I am associated. I am appearing before you in my capacity as an individual citizen and as a professional actuary in the hope that I can make observations that will assist you in identifying the problems that threaten the long-term solvency of the Social Security system and finding solutions to such problems that will not only assure the financial integrity of the system but will assure the provision of appropriate benefits. This was, of course, the very mandate of the National Commission on Social Security Reform.

SUMMARY OF PRINCIPAL POINTS

1. The Social Security system has several very important problems which are somewhat interdependent but not completely so.

The system has financial problems that are relatively small for the next ten years or so but that will become enormous after the turn of the century. To restore the balance in income and outgo solely by tax increases would require the current employee tax rate of 6.7 percent to increase relentlessly for the next 50 years to a level of 14 percent to 20 percent (matched by a like amount from the employer).

Public confidence in the system has eroded seriously during the past eight years. The elderly fear substantial benefit cuts. The young fear an entire collapse of the system. To restore public confidence the system must be perceived as being soundly financed.

The system is out of tune with the times. The social and economic environment has changed more rapidly than Social Security in the past, and this gap will continue to widen in the future unless significant change is made. The system must be perceived as fair and appropriate if the taxpayers are to continue to support it. This is a separate issue from whether the system is financially sound.

2. After thirteen months of study, the National Commission on Social Security Reform has made a series of recommendations that do not decisively resolve any of these major problems.

3. The Commission's proposals would, if we are fortunate, close the gap between income and outgo under the OASDI program for the seven-year period 1983–1989. The proposed changes do not allow sufficient margin, however, for adverse economic conditions, and experience shows that seven uninterrupted years of good times may be too much to expect.

4. The Commission's proposals do not resolve the longer-range problems of the OASDI program. To resolve such problems, the Commission merely states that taxes must be increased, benefits must be reduced, or the retirement age must be increased.

5. The Commission's proposals do not resolve either the short-term or the long-term problems of Medicare (HI and SMI). On the contrary, they aggravate the problems by providing that the OASDI program can continue to borrow from the HI program which is already spending more than it collects and is projected to deplete its reserves before this decade ends.

6. The taxpayer is not interested in the niceties of whether the Congress resolves the OASI problem or the DI problem or the HI problem or the SMI problem or any combination of them. To the taxpayer, Social Security is one large system for which one large tax is paid. The quickest way to destroy any remaining confidence of the public in Social Security is to enact the Commission's proposals and give one more false assurance that the system is soundly financed once and for all.

7. Because of the impending national crisis that Social Security faces, I would not want to speak out against the Commission's set of recommendations, even though I believe that many of them are ill-conceived and in this paper have pointed out some of the deficiences. Perhaps the Commission's proposals are the best compromise attainable at this late date and, as such, represent the minimum action that should now be taken.

8. But we must not delude ourselves into believing that the proposals, if adopted, truly resolve any of Social Security's problem. Adoption of the proposals would do no more than give us another grace period of two to five years, if that long, to devel-

op real solutions. (Adoption of the proposals would also, for better or worse, set some significant precedents for further revisions.) Unless I perceive its mood incorrectly, the public will not tolerate very many more grace periods before taking the matter of Social Security reform, or revolution, into its own hands.

9. Before the Congress takes any action on Social Security I would urgently suggest that this Subcommittee on Social Security obtain the most recent projections of income and outgo under the OASDI and HI and SMI portions of Social Security over the next 75 years—the remaining lifetime of today's youngsters to whom we are promising benefits. The projections should be made under the same range of assumptions, from optimistic to pessimistic, used by the Board of Trustees in its annual reports.

10. An impartial examination of these projections of income and outgo would demonstrate clearly the enormity of the long-range financial problems, as well as the fact that we have promised more in benefits than the taxpayers will be willing and able to finance, and that we must begin now, not later, to redesign Social Security.

INTRODUCTION

On January 20, 1983 the National Commission on Social Security Reform released its long-awaited Report to discharge its mandate to identify Social Security's financial problems and propose "solutions to such problems that will both assure the financial integrity of the Social Security System and the provision of appropriate benefits." This Report was duly presented on February 1, 1983 to the Committee on Ways and Means of the United States House of Representatives.

The work of the National Commission on Social Security Reform was extremely disappointing. Not because it failed to make recommendations that would resolve all of Social Security's financial and design problems—that would be asking to much. But because it failed to identify and report forcefully the full extent of the problems so that the Congress and the public would know that such problems exist. This failure to be honest and forthright with the public will, if not corrected, result in the continued erosion of public confidence not only in Social Security but in the government itself.

FINANCIAL ASPECTS OF RECOMMENDATIONS

Ignoring the merits and faults of the Commission's recommendations for a moment, how effective are the recommendations in resolving Social Security's financial problems? Unfortunately, they are not very effective.

During its meeting November 11–13, 1982 the Commission adopted a background Book of actuarial cost estimates that defined the size and scope of Social Security's financial problems as follows:

OLD-AGE, SURVIVORS, AND DISABILITY INSURANCE (OASDI)

During the period 1983-1989, provision must be made to icrease income or decrease benefits, or some combination of both, by $150 to $200 billion (i.e., 9 percent to 12 percent of projected expenditures).

During the next 75 years, 1982-2056, the average annual deficit, defined by comparing income and outgo according to the intermediate (11–B) demographic and economic assumptions used in the 1982 Trustees Reports, would be as follows: Average annual expenditures of 14.09 percent of taxable payroll and average annual tax income of 12.27 percent of taxable payroll, resulting in an averae annual deficit of 1.82 percent of taxable payroll.

HOSPITAL INSURANCE (HI)—PART A OF MEDICARE

During the period 1983–1989, scheduled taxes will be barely adequate to pay benefits; increased taxes or decreased benefits must be adopted not later than 1990. Under less optimistic assumptions this remedial action must be taken in the late 1980's (and even sooner if OASDI continues to borrow from HI).

During the next 75 years, 1982–2056, the average annual deficit, defined by comparing income and outgo according to the intermediate (11–B) demographic and economic assumptions used in the 1982 Trustees Reports, would be as follows: Average annual expenditures of 8.10 percent of taxable payroll and average annual tax income of 2.89 percent of taxable payroll, resulting in an average annual deficit of 5.21 percent of taxable payroll.

The Commission's recommendations attempt to assure the near-term solvency of the OASDI program by increasing projected net income during the period 1983–1989 by $168 billion (primarily by increasing income by $129 billion and decreasing projected benefit increases by $40 billion). This would satisfy the requirement stated above that net income be increased by $150 to $200 billion.

The Commission's recommendations would decrease the average 75-year OASDI deficit of 1.82 percent of taxable payroll to 0.58 percent, thus eliminating only about two-thirds of it. No agreement could be reached by the Commission on how to eliminate this remaining deficit. Some members favor a higher retirement age, some prefer higher taxes, and some prefer reduced benefits.

The Commission virtually ignored the hospital insurance deficit of 5.21 percent of taxable payroll, which is almost three times the OASDI deficit of 1.82 percent. The Commission also completely ignored the Supplementary Medical Insurance (SMI) part of Medicare, 25 percent of which is financed by participant premiums and 75 percent of which is financed by general revenue. The total cost of SMI is now the equivalent of about 1.0 percent of taxable payroll and is projected to rise to some 5.0 percent of taxable payroll during the lifetime of today's youth.

There is nothing mysterious about Medicare and there is no excuse for ignoring it. It is a life annuity, paid in kind rather than cash, primarily to Social Security beneficiaries aged 65 and over. Almost one fifth of the taxpayer's FICA tax is now used to finance the Hospital Insurance portion of Medicare. Social Security includes Medicare and ignoring Medicare's problems will not make them disappear.

Although the Commission did not address the financial problems of the Hospital Insurance program, and in spite of that program's immiment financial difficulties, the Commission recommended that the OASDI trust fund be authorized to continue borrowing from the HI trust funds during the period 1983-1987.

The Commission's recommendations, therefore, do not even come close to resolving Social Security's financial problems—except those of the OASDI program for the next seven years.[1] To resolve the long-range financial problems the tax rate would have to rise considerably above its currently scheduled level of 7.65 percent in 1990:

Under "Intermediate" assumptions (adopted by the Commission) the tax rate would have to increase to about 14 percent early in the next century (within the working lifetime of today's young taxpayers). This is nearly twice the ultimate scheduled tax rate of 7.65 percent.

Under less optimistic assumptions the tax rate would have to increase to about 20 percent (a combined employer-employee tax rate of 40 percent). This is almost three times the ultimate scheduled tax rate of 7.65 percent.[2]

This is in addition to the cost of the SMI part of Medicare which is projected to rise to some 5 percent of payroll and is financed primarily from general revenue.

There are alternatives, of course, to these onerous tax rates. The retirement age could be increased to about age 70 for persons currently under age 35, or benefits for tomorrow's retirees could be reduced somewhat, or the entire system could be restructured to reflect the changing social and economic environment. But the Commission could not consider changes of this type without acknowledging there was a longer-range problem—and this it was somehow unable to do.

The Commission considered it a major achievment that it would get the minority of the Commissioners representing those who favor the status quo to admit there will be a relatively minor financial problem during the next seven years, 1983-89. It should not be suprising, therefore, that the Commission was unable to acknowledge the existence of major financial and structural problems that may not become critical for another ten years.

I would suggest that the Ways and Means Subcommittee on Social Security obtain from the Commission (or directly from the Social Security Administration and the Health Care Financing Administration) the most recent projections of income and outgo under the OASDI and HI and SMI portions of Social Security. These projections should be made under the same range of assumptions, from optimistic to pessimistic, used by the Board of Trustees in its annual reports. The projections should extend over the next 75 years, that is, for the remaining lifetime of today's youngsters to whom we are promising benefits. Finally the projections should be reported on a year-by-year basis, and not just as a 75-year average, othewise the high future costs will be obscured.[3] An impartial examination of these projections of income and outgo would demonstrate clearly the enormity of the long-range financial problems, as well as the fact that we have promised more in benefits than the taxpayers will be willing and able to finance, and that we must begin now, not later, to redesign Social Security.

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[1] Under less optimistic, but not inconceivable, economic assumptions the Commission's recommendations would not get the OASDI system through the 1980's and further remedial action would be required.

[2] For long-range planning purposes, it appears prudent to rely upon demographic and economic assumptions somewhat less optimistic than those adopted by the Commission. For example, the intermediate assumptions are that the fertility rate will rise eventually about 12 percent above its present level. This is in spite of the latest official population projections by the Bureau of the Census which indicate a preferred assumption, for planning purposes, that fertility rates will not rise above current levels.

By assuming higher than realistic fertility rates the Commission is assuming lower than realistic future costs. It is wishful thinking to assume that fertility rates will rise above current levels and to make future promises of benefits on that basis; all indications are that fertility rates will remain at their present levels or decline, rather than increase.

Chart 1 on the following page portrays projections of this type for the OASDI, HI, and SMI programs combined, based upon the assumptions used in the 1979 Trustees Reports. The projected costs would probably be even higher based upon assumptions currently being used by the Trustees. Adoption of the Commission's recommendations would not decrease these costs significantly since they would reduce the average 75-year net expenditures by only 1.24 percent of taxable payroll.

APPROPRIATENESS OF RECOMMENDATIONS

It is tempting to criticize the Commission for not recommendating the "correct solution" to Social Security's problems; however, there is no such correct solution. The "proper design" for Social Security depends upon one's individual values and beliefs about social ethics and is not something on which unanimous agreements should be expected among diverse interest groups. Nevertheless, the following limited commentary may be of value in assessing the recommendation offered by the Commission.

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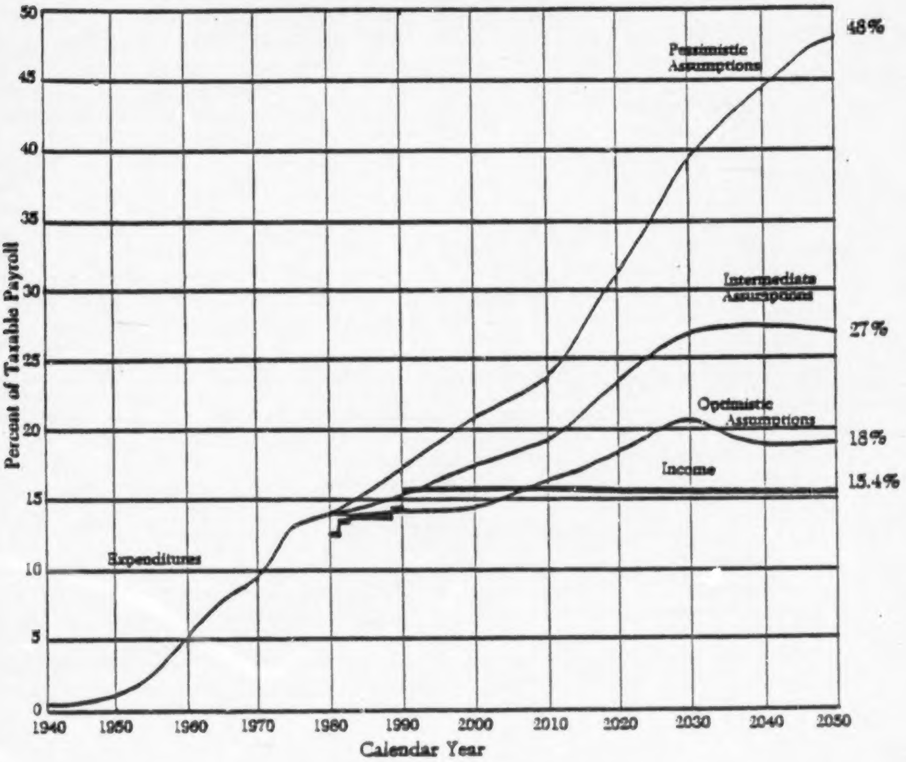
[3] For a more detailed rationale for long-range cost estimates reference may be made to Chapter 10 of The Coming Revolution in Social Security (Reston, 1982) written by A. Haeworth Robertson.

Chart 1

Projected Expenditures for Old-Age, Survivors, Disability,
Hospital and Supplementary Medical Insurance Programs Combined under
Alternative Demographic and Economic Assumptions, and
Legislated Income, Expressed as a
Percentage of Effective Taxable Payroll



This chart is derived from data contained in Chapter 7 of The Coming Revolution in Social Security (Reston, 1982) written by A. Haeworth Robertson.

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BROKEN PROMISES

For 47 years the public has thought Social Security's benefits were inviolable. If the government promised a certain type and level of benefit, it would be paid. People were told that by paying "contributions" to Social Security, they were acquiring "earned rights" to certain benefits. In fact, there has been a steady expansion of benefits and people have generally received even more than promised. As recently as December 7, 1979 the Advisory Council on Social Security had the temerity to say:

"After reviewing the evidence, the Council is unanimously convinced that all current and future Social Security beneficiaries can count on receiving all benefits to which they are entitled."

It should be evident that it is no longer true that benefits, once promised, will certainly be paid. Witness the cuts in students benefits and minimum benefits that occurred in 1981. Witness the Commission's recommendation to defer the COLA benefit increase for six months, or the recommendation to decrease benefits currently being paid to persons with other income of $20,000 or more for a single taxpayer, or of $25,000 or more for joint return taxpayers. (This benefit reduction would be accomplished indirectly by taxing half of their Social Security benefits.) [4]

One disturbing aspect of this selective benefit reduction by taxing benefits is the introduction of the philosophy that if a person saves successfully for his own retirement the reward will be a reduction in benefits that were presumable counted upon in making retirement plans. If this means test philosophy is carried to its logical conclusion, the government will effectively discourage private saving and individual self-reliance, and it may even discourage the disclosure of other income. Such a government-induced change in behavior would be extremely damaging to the character of our nation.

Furthermore, the breaking of these benefit promises will have a far-reaching effect on the public's perception of Social Security, as well as the government itself, as reliable institutions. This will make it difficult to convince the younger taxpayers that Social Security will in fact make good on its promise to pay benefits to them some 30 to 50 years hence. And without this conviction, taxpayers will be very reluctant to pay the high taxes necessary to support the system in the years ahead.

HIGHER RETIREMENT AGES

The Commission's recommendations make no mention of the inevitable increase in normal retirement age for persons no less than about age 35 or 40. This will be absolutely necessary to provide the nation an appropriate-sized work force, not just to resolve Social Security's financial problems. When today's youngsters retire at age 70 in the next century they will have more years left to live than their forefathers who retired in the past at age 65. A higher retirement age is not a benefit cut; it is a natural consequence of increasing lifespans and improved health. The only tenable way that today's younsters can retire in their early 60's is to retain the same short lifespans as their forebears—not a very attractive alternative.

Not only did the Commission fail to propose higher retirement ages, it recommended that if persons defer their retirement beyond age 65 it will not result in any substantial relief to Social Security. This is because of the Commission proposal to increase the delayed retirement credit for individuals between ages 65 and 70 from 3 percent to 8 percent per year. This is an unrealistic proposal and is directly contrary to the need to raise the retirement age and decrease retirement benefits for those retiring in the future.

INCREASED TAXES

The Commission's proposals to increase net income to Social Security by $168 billion during the next seven years, 1983–1989, are comprised of both benefit decreases and revenue increases, with emphasis on the latter.

Faced with an immediate fiscal crunch, this emphasis on tax increases may be preferable to an emphasis on benefit decreases. But the system's current financial problems did not occur overnight. They have been in the making since the mid-1970s and contingency plans could have been made that would have permitted a more even balance between tax increases and benefit decreases. (Parenthetically, it should be noted that we have this same kind of opportunity now to make plans to accommodate the impending Medicare deficits and to restructure the OASDI program to reflect demographic shifts, the changing role of women in the work force, and so on. Ten years from now as we frantically search for solutions to this "surprise crisis," we will decry the lack of time to develop well-designed solutions and will resort, one more time, to hastily designed compromises.)

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[4] Initially, this effective benefit reduction would apply to only about 10 percent of the OASDI beneficiaries. But since it is not indexed, inflation would result eventually in its application to virtually all beneficiaries.

Unfortunately, waiting until the last possible moment to resolve the system's financial problems virtually forced the use of general revenue, and a large part of the recommended tax increase would come from general revenue, particularly in 1983 and 1984. As most everyone knows, the nation's budget is in a deficit position and there is no available general revenue to use for Social Security. Relying on general revenue to pay benefits is thus tantamount to borrowing—not a very good basis on which to operate a social insurance system.

The extent of the Commission's proposed use of general revenue may not be obvious at first since it is done rather circuitously. General revenue would be used in this manner:

The increase in the employee Social Security tax for 1984 (from 6.7 percent to 7.0 percent) would be returned to the employee as a tax credit or cash refund, thus reducing general revenue by the same amount as the tax increase.

One half of the total increase self-emloyment Social Security tax would be deductible as a business expense, thus reducing general revenue by a substantial portion of the tax increase.[5]

The lump sum reimbursement to the old-age trust funds for military wage credits would be from general revenue.[6]

A more subtle introduction of general revenue would arise from the inclusion of Federal employees in Social Security. Including Federal employees in Social Security is said to cause a financial gain to the system. This gain arises because more tax money is paid into the system for Federal employees than is paid out in benefits. But the ultimate source of all the taxes paid into the system for Federal employees is general revenue. Therefore, the inclusion of Federal employees in Social Security will simply cause a shift from direct payroll-tax financing to indirect general-revenue financing.

Although it is not widely known, general revenue is already used to finance three-fourths of the cost of the SMI portion (Part B) of Medicare. In 1982 the total cost of SMI was about $17 billion, or the equivalent of about 1.0 percent of taxable payroll. With the total cost of SMI projected to rise to 5 percent of payroll, this means eventual general revenue financing equivalent to nearly 4 percent of payroll. This is twice the cost of the entire Social Security program (a combined employer-employee tax of 2 percent when it was originally adopted.

Anyone who is worried about an increased use of general revenue to finance Social Security should start worrying harder.

UNIVERSAL MANDATORY COVERAGE

As desirable as universal mandatory participation in Social Security might be from several viewpoints, it seems grossly unfair to ban withdrawal from the system by state and local governmental employers. These employers (and their employees) voluntarily joined Social Security with the understanding that they could withdraw in the future. A unilateral change in this participation agreement seems highly undesirable, if not illegal. At the least, state and local governments should have a grace period in which to make a final irrevocable decision as to whether they want to withdraw from Social Security or continue to participate.

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[5] It should be noted that although this procedure places the high-income self employed in the same after-tax position as the present procedure, it places a much larger tax burden on the lower-income self employed.

[6] This is the ultimate example of how waiting until the last minute to resolve Social Security's financial problems can evoke desperate, even ludicrous, "solutions" that have no substance whatsoever.

Gratuitous military service credits are granted under Social Security in some cases without the payment of Social Security taxes. To prevent a loss to the trust funds the current procedure is to use general revenue to reimburse the trust funds for the amount of the benefits arising from these credits at the time the benefit is actually paid. The Commission recommendation would change this procedure and require general revenue reimbursement to the trust fund in advance of the disbursement of benefits. This advance funding of military credits could then be used to meet the current shortfall in the trust funds and permit the continued payment of benefits to others.

Careful analysis reveals this to be an artful machination to give the public a false sense of security without any substantive action being taken. The procedure is to take funds from nonexistent general revenue (i.e. raise the national debt by borrowing from the taxpayers), and to pay amounts to Social Security that are not due for many years in the future, so that such amounts can be used to pay current beneficiaries.

The net result is an increase of $20 billion in the national debt in 1983 so that $20 billion can be added to the Social Security trust funds to stave off insolvency for a few more months.

Mandatory coverage of newly hired Federal employees may be desirable in some respects but it is doubtful that it will save the nation any money—as some advocates of mandatory coverage suggest. It is likely that new hires would receive the same total benefits from Social Security and a revised Civil Service Retirement System as they now receive from their present system. If so, the total cost of retirement benefits for Federal employees would not be reduced. It would simply be rearranged.

Mandatory universal coverage would be defensible if Social Security provided only a minimum floor of protection. It would then be reasonable to impose Social Security's benefits on all employees, including employees of the Federal government, nonprofit organizations, and state and local governments.

But Social Security is not a minimum floor of protection, it is much more. It provides an array of benefits far beyond those that everyone would agree is a socially desirable minimum. Accordingly, it does not seem reasonable to impose the existing Social Security program on everyone whether they need it or not. If Social Security were reformed to provide a reasonable level and array of benefits that most people could agree was socially desirable, then mandatory universal coverage would be in order.

PROBLEM IS NOT JUST FINANCIAL

In defining the size and scope of the Social Security problem, the Commission gave practically no attention to the strong likelihood that the long-range problem is primarily a design problem and not just a financial problem. The social and economic environment will be considerably different 30 to 50 years from now when the children of the post-World War II baby boom approach retirement. The role of women in society and the workplace has changed and will continue to evolve. It is entirely reasonable, therefore, to give serious consideration to a complete new type of social insurance system for the relatively young segment of our population, even if we continue the present system for the older segment of the population.

What did the Commission have to say on this subject? During the final days of its meetings, the Commission acknowledged that it was committed to the basic structure of the existing Social Security and contemplated no recommendations for major change. Several members of the Commission noted that the social and economic environment had changed more rapidly than Social Security had changed and that a reexamination of the basic structure of Social Security was therefore in order. They stated, however, that the pressures imposed by the size of the financial problems had diverted their attention from such a comprehensive study. This seems absurd in view of the fact that:

The Commission was appointed in December 1981 when the financial problems were well known and well documented, so the Commission had more than adequate time for a thorough study.

The inappropriate design of Social Security is a significant factor both in causing the long-range financial problems and in causing doubt about the fairness and thus the long-term viability of the system.

Approximately 80 percent of the nonretired population is less than age 45. It is this large group that is questioning whether Social Security will still be around when it retires. Social Security's future existence depends precisely upon whether or not today's youth will support it, and this depends in turn upon whether it suits their needs and whether they believe it is fair.

RESTORATION OF PUBLIC CONFIDENCE

The Commission has been laboring to design recommendations for change in Social Security that will simultaneously: Resolve the system's financial problems; and restore the public's confidence in the long-range viability of the system.

This effort to restore public confidence is of paramount importance in view of the Commission's finding "that currently there is little confidence that the program will continue to operate over the long-range future, especially among young people." Confidence in Social Security's permanence is essential, of course, if the taxpayers are to keep supporting it.

Although much of the Commission's work may be commendable in view of the circumstances, adoption of the Commission's recommendations will clearly not resolve a very large part of Social Security's financial problems. If the public is misled to believe that the financial problems have been resolved, there will be a very harsh day of reckoning in the not-too-distant future. Any further erosion of public confidence in Social Security and in the government itself would be a dangerous threat to the stability of the nation.

If the Congress does not do a better job than the Commission of recognizing Social Security's significant future financial problems, it may soon be too late to develop rational solutions, since an atmosphere of crisis seldom yields satisfactory results—as evidenced by the present situation. If the Congress tries to solve the future financial problems without resolving the future design problems and thus gaining greater public support, its efforts will be in vain.

Much bolder action will be required by the Congress than was recommended by the Commission if it is to truly resolve Social Security's problems. And nothing short of this will restore the public's steadily eroding confidence.

CONCLUSION

If Congress adopts the Commission's meager recommendations for Social Security reform and then assures the public that all is well, the following scenario seems probable:

In the mid-1980s the near-term Medicare financial problems will become as evident as the near-term OASDI problems are now. But Medicare's financial problems are considerably greater than the OASDI financial problems.

The short-range Medicare problems will be studied for several years and finally "resolved" at the last possible minute—in about 1987. The public will again be assured that all is well with Social Security.

Simultaneously, the late 1980s, discontent with the relentlessly increasing taxes will be aggravated by the inappropriate design of Social Security. The social and economic environment will continue to change faster than Social Security is changed. By then people will have a full understanding that they are not buying and paying for their own benefits and that Social Security is a huge income transfer program, and they will be extremely restive.

In the late 1980s or early 1990s the long-range financial problems of both OASDI and Medicare will start becoming more believable as they become more imminent. It will be clear that people will have to remain in the work force beyond their early 60s—probably until age 70 or so. The first children of the post-World War II baby boom will be approaching age 50 and they will not take kindly to a suggestion that they work another five years or so beyond their planned retirement at age 65. "Why didn't you tell me sooner?" they will ask.

It is difficult to foresee how all of this will end, but one thing is sure: The strife and trumoil in the late 1980s and early 1990s will make today's problems with Social Security look like an afternoon picnic.

Fortunately, there is still time to forestall much of this discord. All we need to do is pay more serious attention to the obvious problems that lie ahead and stop kidding ourselves. Realism may be painful but it is not nearly so fatal as unjustified optimism.

Mr. **Fowler**. Thank you.

Mr. Harris.

STATEMENT OF DAVID G. HARRIS, WASHINGTON, D.C.

Mr. **Harris**. Thank you very much, Mr. Fowler.

My name is David Harris. I have been employed for the last 26 years for the same firm. I am here representing views of myself, and although my views may seem irrational, I oppose the entire Commission report, and I oppose the committee even considering such a devastating report.

It is my personal view that after 26 years of working, the Government now wants me to work an additional 20 years in order for me to draw this measly sum of social security. Social security is neither social in these days nor does it offer any security to myself.

I am 43 years old. I have another 23 years before I may retire on social security, although this is not what social security was originally meant to be. Social security was meant to be to help as a supplement to those people who would be infirm or who would be disabled to work. This portion of it I probably would agree with, although I think that the Government should get out of the welfare business and get on to the business of Government.

If 26 years ago I had taken the money that I had paid in social security and put it in a bank account, today in that bank account I would have $100,000 drawing a 10-percent interest, or more than $10,000 a year. Social security today is not a retirement plan, as the President of the United States has suggested that it might be, but it is an SSI thing. This is a supplement to people who are unable to work or who are unable to find work.

It is my view that we continue to put good money after bad money. It is my opinion that we cannot continue to put more apples into the same barrel that already has a bad apple. You are faced today with the same problem you have been faced with for the last 30 years or so: What can we do with the future?

The future lies in your hands. If you amend the proposals set forth by the Commission to a point where you would do away with social security altogether, refund all of the money that all of the people have paid into the fund, you will find that that would be a better solution, while letting banks handle individual retirement plans.

If the Government wants to continue to pay infirm people, aged people, people who are unable to work, then let them stay in that welfare business, or let them supplement their income in another way. Do not deprive the young people today, to tell them, you give me $20 a week today out of your salary, and in 50 years from now I will give it back to you. All of the money that I have paid so far in social security, if and when I do retire at the age of 65, 66, 70, or even 80, that makes no difference.

In 1 or 2 years' time, the amount that social security would pay me, that would eat all the money that I paid out. Then I would become a dependent of the Government. I do not want the Government to give me anything. I want to earn what I pay for and earn what I get. The Government, in subsidizing me, makes me feel very low. This is not what I want the Government to do, if I work and earn a salary, and put it in a plan that I know that 50 years from now I will have it coming to me.

What happens to all of the money of the people who have worked 30 years and died before the age of retirement? The Government has found it necessary to give them a very measly $250. What can you do with $250 today except to a funeral home, and the funeral home will hardly even bury you for that price. They look to other people for the same price.

It is my contention, sir, that the Government should get out of the social security business altogether. If the Government wants to continue to stay in it, then let the 13.4 percent of the amount of money be put into an individual person's account of their choice where it can grow into something that is retirement. After that person dies, if the money is still there, then let it be left to a beneficiary, and let that money only be given as a retirement plan.

I thank you very much, Mr. Fowler, for listening to an irrational point of view.

Mr. FOWLER. Well, I do not know that it is irrational, Mr. Harris. It may be dangerously rational. [Laughter.]

I thank you for the conciseness of your excellent testimony.

Mr. HARRIS. I am sorry, Your Honor, I do have a prepared statement, and I would like it included in the record.

Mr. FOWLER. We would be delighted to have it.

[The prepared statement follows:]

STATEMENT OF DAVID G. HARRIS, WASHINGTON, D.C.

Mr. Chairman, I thank you and members of the Subcommittee for allowing me to present my views to you concerning this appalling situation with the present Social Security System. I would like to point out to you several misgivings I have about the system, the first being that in all of my encounters, I have never met one single person who thinks Social Security is a help in our disabling years, but all think that Social Security is a retirement fund, and even the President has mentioned this. No one has realized that this is not the case. Social Security as it was enacted many years ago was not meant to be a retirement plan but now it has grown into the largest white elephant that we have seen and is continuing to grow beyond our wildest dreams.

I have been employed by the same employer for the last 26 years and Social Security or FICA has been taken out of my salary and given to the Federal government to do with as it wishes; and the government has seen fit to pay this money to just anyone who comes along, including people who are deceased, dogs, cats, and the like. People have defrauded this government using the hard-earned money that I have paid and the Federal government has let them get away with it.

Not only has the Federal government paid money to the dead, but have taken the dead's money that they paid and continually paid it to the living. I realize that people who die may or may not have had an interest in where their money would go when they died before the age of so-called "retirement," but I do think that they would not want it sent to anyone who did not rightfully deserve it.

I bring the following alternatives to Social Security as it now stands:

Based on the 13.4 percent of a person's wages (that being 6.7 percent from the employee and 6.7 percent from the employer), such amount to be paid into a money market account at a bank of his or her choosing; this amount of money purely based on $20.00 per week and, as you know, the more a person earns, the more would be deposited, such an amount would exceed $150,000.00 in just 20 years. This would allow a person to retire at the age of 37 or after if he or she wishes, and this would allow the person with such an income of over $15,000.00 a year to be not only creative but inventive. I ask you: why should a human being have to slave all of his or her life on employment when he or she can enjoy life for what it is worth. The more people that you have on retirement, the more employment is helped otherwise. After all, when a person has an income, he or she can become not only creative but inventive. This amount of money that is in the banks would free funds for employment social services and give money to borrowers to begin construction, refurbishing, and the like in industries.

I ask the government to refund the amount of money that they have withheld from salaries and put it into a bank offering the money market funds and prohibit the banks from giving to the depositor any of the funds so collected except as to the interest that is due on these deposits.

I ask that the amount on deposit after the depositor be given to a beneficiary of the deceased's choice, this amount to be deposited only into his or her retirement fund account. After so many years, funds can only be drawn upon retirement. If a person wishes to continue working or going into his own business, then this person should be free to do whatever he or she wishes. After all, they would have the funds necessary to make up his or her own mind.

A retirement fund is only for the working and those who do not wish to work can continue to live on welfare, thievery, panhandling or the like. I am sick and tired of the government supporting those who are able but will not seek beneficial employment. This government can support the unemployed who can honestly not find a job or will not accept useful employment. The government needs to get out of the welfare business and get on with the business of government. Let the States and municipalities support its own kind.

I grow annoyed with the continued economic assumptions and the deceit that has been going on over the years and I grow annoyed that now, after I have labored for 26 years, that I now have to work at least 20 more years before I can draw the humiliating, measley sum from Social Security when, in fact, the amount that I have already paid into this doomed fund I could retire on now and have $15,000 per year for retirement or whatever I wished to do with it.

Let us get down to the basic facts and let us supply the solution to the problem. You know as well as I do that the present system and the recommendations of the National Commission on Social Security Reform is just a holdover and the problem will continue to exist; and now that it has been recommended that the retirement or eligibility for Social Security be raised to 66, it will not be long before this age reaches another rung of the ladder and I will, as most people believe, never reach the age of retirement.

If I become disabled, I will have to live on welfare and although this is a very unlikely possibility, I say to you now that the present system will never have enough money to pay for it all. In fact, I will never earn in my lifetime the amount of money that the government will have to pay me if I become disabled or when I retire. The life expectancy is now over 70 years and will rise soon and you cannot continue to put good apples into a barrel that has one bad apple in it.

I also want you to know that it is unfair for Social Security or FICA to be taken out of my salary when Maine, Massachusetts, Nevada, Ohio Federal workers and some others do not have to have the same taken out of their salaries. Since Federal workers have their own pension plan, you must realize that their pension plan will pay far more than this government can give me under the Social Security plan even though I have more than likely paid more than the Federal worker.

If we bring them into the plan, you might just bankrupt their plan or, as one member of the Congress said, the government would supplement this plan and as you can see, the government continues to supplement something or another even when they are well aware of their mistakes. They can just legislate to compensate for it. I say to you that this is the time to do away with the present system and not to listen to the President and not to listen to these so-called reformers.

I would also like for you to know that 36 million Americans get Social Security and the average of these checks is $500.00 per month apiece, and that there are 114 million people paying Social Security and the average amount of this is $316.80 per month and sooner or later it will catch up to the system and the dilemma will continue, and once again, the system will be in a pickle.

I point out to you that I know of no one who can grasp the amormity nor can they conceive of how much money or the effects of the amount of $1,000,000,000 is and we are talking about 200 of these, for the national debt. I would be willing to stake my life on the fact that not one nor all of you could count that much money in one dollar bills in your lifetime. This is what I am talking about.

I want to thank you, Mr. Chairman and members of the committee, for the opportunity to appear before you and give my views. However, I want to impress upon you how delicate this situation is and how simply the situation can be corrected if you and your colleagues will take into consideration that a retirement fund is just that; and that it is imperative that you enact legislation with reference to banks and retirement funds that banks operate, such as money market funds and, incidentally, which the government insures; that you let a person know and that you guarantee that a person will receive X amount of dollars, a certain percentage, during and not at the end of his retirement.

I want you to know that even if I work another 20 years and die at the age of 65, you will give the funeral home only $250.00 and the rest you will give to drunks, derelicts, thieves, murders, dead people and, of course, some deserving.

I want to leave you with this thought: This program as it stands is doomed and if you let it continue, you are to blame. This program, if you enact it, will go on after you are dead and others will have to deal with it, probably no better than you have dealt with it after the death of your predecessors, who enacted this white elephant in the first place.

Mr. Fowler. Mr. Samuel Greenberg, chairman of the One Tax Alliance, and author of the book "Taxes, Government, and You."

STATEMENT OF SAMUEL GREENBERG, CHAIRMAN, ONE TAX ALLIANCE

Mr. Greenberg. Thank you very much, Mr. Chairman.

Mr. Fowler. Thank you for your book, Mr. Greenberg.

Mr. Greenberg. I hope you enjoy it.

The alliance has a substitute for the Commission solution. A policy adopted that individuals have the responsibility for their own well-being would be substituted with those incapable of doing so receiving support from local government provided out of the allocation of the single tax proposed by the alliance on August 18, 1980, on page 1619 of those hearings. In place of social security taxes for providing retirement income, employers as a cost of business or operations would pay retired personnel benefits at mutually agreed levels. All contributory systems would cease.

Additionally, defraying this cost would be the elimination of all other taxes on employers, with the consequent benefit by reduction of costs to users and consumers. The infrastructure required for the administration of social security would no longer be needed.

The social security system in being bears little resemblance to the purpose originally intended, which was born out of the ashes of the Depression. The report of the National Commission on Social Security Reform seeks to perpetuate it. It has been termed a "reasonable compromise." It is a gross political expedient.

A trust fund implies the money will be there when needed. This has never been the case, since all it has consisted of is a volume of IOU's and not a dime's worth of actual cash in the Treasury.

The proposal made by the alliance is innovative, requiring substantial decreases in outlays. It also will induce employees to stay with their employers to earn a well compensated retirement. This is true reform. Thank you.

Mr. FOWLER. Thank you, Mr. Greenberg.

Mr. Davidson.

STATEMENT OF JAMES D. DAVIDSON, CHAIRMAN, NATIONAL TAXPAYERS UNION

Mr. DAVIDSON. Thank you, Mr. Chairman. I am James Davidson. I am chairman of the National Taxpayers Union. I appreciate the opportunity to present our views on the financing problems of social security and the recommendations of the National Commission.

In 1977 Congress forced a bitter pill on the American taxpayer. According to then President Carter, record social security tax increases were to assure the system's soundness into the next century. But the system barely made it into the 1980's. The National Commission on Social Security Reform's recommendations, which have been endorsed by the bipartisan congressional leaders, are unacceptable to us, because they rely too heavily on tax increases to maintain an unsustainable level of benefit increases.

Under the 1977 law the American taxpayer will be forced to pay an additional $300 billion of social security taxes from 1983 to 1989. In addition, the Commission proposes accelerating payroll taxes, placing a much higher levy on the self-employed and expanding coverage.

The 1977 amendments did very little to control windfalls to current beneficiaries. We are pleased that the Commission's proposals do more to curtail windfalls, but they are not enough. Far too little attention has been paid to the magnitude of these windfalls. A 65-year-old man with a nonworking spouse who retired in June 1982 would by the end of March have used up every penny he ever contributed to social security. He, and later his wife, would then continue to draw benefits if they lived to their normal life expectancies until after the turn of the century.

Even if you allow for an inflation and interest factor, this couple will receive more than five times the benefits for which they paid. In a pay as you go system which embraces substantially the whole population, it is impossible for one generation to receive five times as much as it paid for without insuring that the next generation receives less than it paid for.

At a time of high unemployment, reduced growth, and economic uncertainty, it is unfair to call upon the coming generations to subsidize the windfalls paid out to those who have already had jobs in a society which offered greater opportunity than that available to many young people today. It is common knowledge, for example, that many young people could not afford to buy their parents' home. In fact, only 1 in 20 today can buy a new home, whereas in 1957 7 out of 10 people could have afforded a new home.

The record of political and economic excess left behind by the retiring generations is as much their responsibility as it is the responsibility of those now working. It is fair and right that those who supported the policies which led this country to its current economic impasse, and who not incidentally benefitted by them, should bear more of the responsibility and the cost of avoiding national financial ruin.

A sound and fair policy would reduce the magnitude of the windfalls being conferred upon current beneficiaries and thus reduce the loss upon those in the working generations who will be lucky to ever get back what they have paid into social security.

Mr. Fowler. How do you reconcile your last statement with the fact that you just said that under the present system whoever makes it to draw their benefits is going to get back five times what they put in?

Mr. Davidson. That is right. You heard very excellent testimony to the effect that a projection of the benefit levels at the current rates, based upon intermediate assumptions, will require that a staggering portion of the taxable payroll in the coming years be delivered solely for the social security system, which I believe is unacceptable.

I do not think that anyone of us sitting here with a crystal ball, even as dim as the crystal balls we have, would predict that that type of policy can be sustained. It just will not happen. The economy would collapse under the weight of a 40- or 50-percent social security tax long before people would be able to enjoy a secure retirement.

If I may, I would like to continue with a portion of my written statement.

We also want to register a few lumps on the notion that social security should be taken off the Federal budget, which again strikes me as a kind of wishful thinking. The idea is that if you put something under the rug, the problem goes away. There is no advantage that I know of in terms of improved public policy consideration, to taking out of the budget one of the largest items of Federal spending.

We also have problems with the proposal to tax benefits beginning at $20,000 for single persons and $25,000 for couples filing joint returns. We agree that the benefits should be taxed as a way of reducing huge windfalls to those who do not need them. Currently, the average retiree can expect to collect, as I said, five times the amount paid into the system, including interest.

Our objection centers on the fact that under the Commission's proposal there would be perverse effects which are very difficult to justify. A person who earned just a few dollars over $20,000 would actually find himself with substantially lower after tax income than someone who earned $19,900. This is clearly unfair. It would be better to exclude all social security benefits from tax until the benefits paid exceed the taxes paid plus the interest. Thereafter, all social security benefits should be taxed as ordinary income.

Although we applaud the recommendation by the Commission to include new Federal workers in the social security system, it is unfair to exempt all current Federal employees, including Members of Congress, from paying this tax. This is unfair because the social security system is part of the giant welfare program and part insurance. By exempting Federal workers and Members of Congress from paying any social security tax on their Federal salaries, we are exempting them from helping to pay the cost of supporting the needy elderly.

Is there any principle of justice which states that public employees should not contribute to the Nation's largest welfare program? It is all the more important that Federal employees be obliged to pay because the great majority, 75 percent, will find ways to qualify for benefits anyway, thus capturing additional windfalls.

Actuarial estimates indicate that if all Federal employees and Members of Congress were put into this system just like the vast majority of other working Americans, there would be no need to accelerate the current payroll tax increases.

The National Taxpayers Union supports major long-term reform. We should seek to base benefits directly on contributions, and we should move toward a fully funded retirement system. We realize that it may take years for the Congress to accept this view. Therefore, we are recommending some interim solutions, and I have listed these.

I thank you for your attention.

[The prepared statement follows:]

STATEMENT OF JAMES DALE DAVIDSON, CHAIRMAN, NATIONAL TAXPAYERS UNION

Mr. Chairman, and members of the Committee, thank you for the opportunity to present testimony on the financing problems of the Social Security system and the recommendations of the National Commission on Social Security Reform.

In 1977, Congress forced a bitter pill on the American Taxpayer. According to then President Carter, record Social Security tax increases were to assure the system's soundness into the next century. But the system barely made it into the 1980's.

The National Commission on Social Security Reform's recommendations, which have been endorsed by President Reagan and Speaker Tip O'Neill, are unacceptable to us because they rely too heavily on tax increases to maintain an unsustainable level of benefit increases. Under the 1977 law, the American taxpayer will be forced to pay an addition $300 billion of Social Security taxes from 1983 to 1989. In addition, the commission proposes accelerating pay-roll taxes, placing a much higher levy on the self-employed, and expanding coverage.

The 1977 amendments did very little to control windfalls to current beneficiaries. We are pleased that the commission's proposals do more to curtail windfalls, but they are not enough.

Far too little attention has been paid to the magnitude of these windfalls. A 65 year old man with a non-working spouse who retired in June of 1982 would, by the end of March, have used up every penny he ever contributed to Social Security. He, and later his wife, would then continue to draw benefits, if they lived to their normal life expectancies, until after the turn of the century. Even if you allow for an inflation and interest factor, this couple will receive more than five times the benefits which they paid for.

In a pay-as-you-go system which embraces substantially the whole population, it is impossible for one generation to receive five times as much as it paid for without insuring that the next generation receives less than it paid for. At a time of high unemployment, reduced growth and economic uncertainty, it is unfair to call upon the coming generations to subsidize the windfalls paid out to those who already had jobs in a society which offered greater opportunity than that available to many young people today. It is common knowledge, for example, that many young people could not affore to buy their parents' home. In fact, only one in twenty can today afford to buy a new house, whereas in 1950 seven out of ten people could have afforded a new home.

The record of political and economic excess left behind by the retiring generations is as much their responsibility as it is the responsibility of those now working. It is fair and right that those who supported the policies which led this country to its current economic impass, and who not incidentally benefitted by them, should bear more of the responsibility and the cost of avoiding national financial ruin. A sound and fair policy would reduce the magnitude of the windfalls being conferred upon current beneficiaries, and thus reduce the loss upon those in the working generations who will be lucky to ever get back what they paid into Social Security.

Economic studies confirm that higher taxes will hurt economic growth and throw more people out of work. For too long, Congress has treated Social Security tax increases as if they have no effect on the economy. This is clearly not the case.

There is little in the commission's report to comfort taxpayers, particularly young taxpayers. For those young workers entering a career now, tax rates may reach 25 percent to 33 percent of payroll in order to pay benefits being promised. That's more than double the current rate.

The recommendations also propose placing a new and unjustified burden on the self-employed. Perhaps the commission felt the self-employed are rich. Nothing could be further from the truth.

NUMBER AND PERCENT OF RETURNS WITH SELF-EMPLOYED TAX BY ADJUSTED GROSS INCOME

Adjusted gross income	Number of returns	Percent of all returns
Under:		
$5,000	1,013,6574	13
$10,000	2,331,842	30
$15,000	3,461,108	45
$20,000	4,440,128	57
$25,000	5,.302,517	69
$30,000	5,948,171	77
Total returns	7,723,051	

Source: 1980 Statistics of Income, Individual Income Tax Returns and NTU staff computations.

As the table shows, almost half the self-employed earn less than $15,000 each year. The marginal tax rate at that bracket is 21 percent for singles and 17 percent for those filing joint returns. Even though the self-employed will be allowed to deduct the so-called "employers" share of the Social Security tax, their tax burden will go up tremendously. In fact, the lower the income of the self-employed person, the higher the overall tax increase.

If you work for a large corporation, quit and earn the same salary being self-employed, you will pay a much higher tax. Many corporations can obtain tax savings of 46 percent of their employers share of the Social Security tax, while most of the self-employed will obtain tax savings of less than 21 percent.

If the committee approves this recommendation, it would only be fair to allow the self-employed to deduct other costs. If the self-employed person purchases health insurance, let him deduct that as a cost of doing business. Other fringe benefits which are non-taxable for employees share be non-taxable for the self-employed.

We are also disappointed that the commission did not adequately address the long-term problem of the Social Security system. We also have considerable doubt about the adequacy of the proposal as a short-term solution.

If one closely examines the economic assumptions used to determine the estimated $150–200 billion shortfall for the OASDI trust funds from years 1983 to 1989, it's clear that one severe recession could put the system on the rocks again. The commission assumes economic growth will remain positive for the remainder of the decade at rates near 3 percent, that unemployment will steadily fall and that wages will rise faster than prices. Even using the commission's own assumptions, the $169 billion recommendation is on the low end of the estimated shortfall.

Accepting the commission's estimate of a long-term shortfall or 1.8 percent of payroll, the recommendations only close two-thirds of the shortfall in the OASDI funds. Nothing is proposed for the huge shortfall projected for the Health Insurance (HI) funds.

The commission's demographic and economic assumptions are defective. For one thing, they are contradictory. For example, the commission assumes that we will have a 1.5 percent real wage differential, that is, the percentage increase in average annual wages will exceed the percentage increase in the average annual consumer price index by 1.5 percent. In other words, we will steadily become richer. Yet, even though we become richer, the commission predicts our life expectancy won't grow as fast as it has been recently. During the 1970's, when the real wage differential was negative, life expectancy for males at age 65 increased by 1.1 years and life expectancy at birth for males increased by 2.7 years. If we extrapolate these trends to the year 2020, life expectancy at 65 for males will be 17.6 years and life expectancy at birth will be 80.6 years. The commission has assumed figures of 16.4 and 73.8 respectively. Even under its "pessimistic" assumptions, it estimates 18.8 and 77.7 respectively.

Future medical advances could easily cause the long-term shortfall to mushroom. Under the "pessimistic" assumptions, the long-term gap would be closer to 5.5 percent of payroll. If the commission is right in assuming a steady increase in wealth, it is most likely to be wrong in not correlating the increased wealth to increased life expectancy.

In either case, all of these estimates ignore the financial status of the HI fund. Again, under the commission's assumptions, there's a long-term gap of over 7 percent of payroll over the next 75 years.

Common sense and prudent planning require that we index the retirement age to gains in longevity. The most sensible approach would be to gradually raise the normal retirement age to age 66 or 68 and then index it to changes in life expectancy. If Congress does not do this, the Social Security system would face a long-term crisis of much larger proportions than Congress will admit to now.

We also strongly oppose the recommendation to take Social Security off the federal budget. Taking Social Security off the budget would vastly understate the costs and the size of the federal government and its economic impact. Removing it from the budget will make it more poorly understood. Currently, the President's annual budget submission and congressional debates on the budget serve to increase awareness of the Social Security system, its benefits and its costs.

We also have problems with the proposal to tax benefits beginning at $20,000 for single persons and $25,000 for those couples filing joint returns. We agree that benefits should be taxed as a way of reducing huge windfalls to those who do not need them. Currently, the average retiree can expect to collect about 5 times the amount paid into the system, including interest.

Our objection centers on the fact that under the commission's proposal there would be perverse effects which are hard to justify. A person who earned just a few dollars over $20,000 would actually find himself with substantially lower after tax income than someone who earned $19,900. This is clearly unfair. It would be better to exclude all Social Security benefits from tax until the benefits paid exceed the taxes paid plus interest. Thereafter, all Social Security benefits should be treated as ordinary income for tax purposes.

Although we applaud the recommendation by the commission to include new federal workers in the Social Security system, it's unfair to exempt all current federal employees, including members of Congress, from paying this tax.

This is unfair because the Social Security system is part welfare program and part insurance program. By exempting federal workers and members of Congress from paying any Social Security tax on their federal salaries, we are exempting them from helping to pay the costs of supporting the needy elderly. Is there any principle of justice which states that public employees should not contribute to the nation's largest welfare program? It is all the more important that federal employees be obliged to pay because the great majority (75 percent) will find ways to qualify for benefits anyway, thus capturing additional windfalls.

Actuarial estimates indicate that if all federal employees and members of Congress were put into the system, just like the vast majority of other working Americans, there would be no need to accelerate payroll tax increases.

The National Taxpayers Union supports major long-term reform. We should seek to base benefits directly on contributions and we should move toward a fully-funded retirement system. We realize that it may take years for Congress to accept this view. Therefore, we are recommending some interim solutions. The following modifications, in our view, would vastly improve the commission's recommendations:

(1) We should extend the Social Security tax to all federal employees, including members of Congress, and eliminate the proposal to accelerate payroll tax increases. This would eliminate the windfall benefits that many of these employees nor receive. It would also subject them to the same tax paid by most Americans;

(2) In addition to delaying the cost of living increase by six months, we recommend, at a minimum, indexing the system to the annual percentage increases in wages minus 1.5 percent, until the trust fund ratio exceeds 40 percent. Whenever this ratio is achieved, the system could be indexed as it is under present law.

These two changes would eliminate the need for any payroll tax increase and would much better guarantee the solvency of the system through the 1980s.

Another desirable reform would be to change the indexing provision of the average indexed monthly earnings (AIME). The AIME is used to compute the initial Social Security benefit. Changing the indexing from the increase in average annual wages to the increase in prices would greatly reduce the program's unfunded liabilities. Even a slight change from the current wage indexing toward price indexing would greatly improve the solvency of the system.

In the short-term, we think it would also be wise to expand the Individual Retirement Accounts (IRA). The maximum IRA contribution should be raised, and indexed, to equal the maximum Social Security tax paid by employees. Self-employed persons should be able to contribute to their IRA up to the maximum Social Security tax. This would better enable people to prepare for a more secure retirement future. IRAs provide good benefits, encourage savings and will help our economy.

Congress should also allow people to use their IRA investments to provide enhanced disability and old age health insurance benefits.

Congress might wish to form a commission to study alternative long-term solutions to the Social Security problem. The mandate for this commission should be to examine and report on the most feasible proposals to convert it to a fully funded program and/or transform it to a program where welfare and insurance benefits are separated, with insurance benefits being paid on an actuarially fair and sound basis.

LONG-TERM REFORM

In his book, Social Security: The Inherent Contradiction, Peter J. Ferrara shows some stunning facts about how inefficiently Social Security provides for people's retirement. For example, he examines an average income worker who starts working at age 22 and earns an average income until retirement. If he were able to save and invest in a retirement fund the money he will have to pay in Social Security taxes, Ferrara estimates that that worker could retire on "three and a half times what Social Security would pay," if single, and about "two and one half times what it would pay" if he was married with a non-working spouse. This average worker would still be able to leave an estate of almost half a million dollars.

Using different assumptions about income for various workers now entering the work force, he finds that a fully funded private retirement fund can sometimes pay more than 7 times what Social Security could pay.

Incidentally, any additional increases in taxes or reduction in future benefit increases, such as those being comtemplated by Congress today, would make this comparison even more favorable for a private retirement fund.

The reason for these large disparities is that Social Security taxes are paid out in the form of benefits almost as soon as they are collected and the individual loses the benefit of compound interest. Because an individual saves for his own retirement benefits by earning a positive rate of return on his savings, the benefits of this plan would be tremendous.

Ferrara points out that the Social Security has an "inherent contradiction," that is, it trys to achieve two goals that are contradictory: a welfare function and an insurance function. Ferrara explains that "Social Security serves an insurance function by paying benefits when a person retires, is disabled, dies, or is hospitalized. . . . Social Security serves a welfare function . . . (by paying) benefits to some individuals solely because it is felt they are in need." By pursuing these two goals, Social Security winds up doing an inadequate job on both of them.

The Social Security system's welfare function is particularly inefficient because it pays welfare-type benefits to those who do not need them, while also relying on a regressive tax.

There are several ways a reform could be implemented. The best way would be to steadily phase it in. The first step would be to separate the welfare and insurance functions of Social Security. This would solve the contradiction causing the current problems in Social Security. The two functions would be separately funded. The insurance function would be paid for by payroll taxes. When retiring, a worker would receive an actuarially fair benefit based on the amount of payroll taxes paid during his lifetime. Those whose benefits would not be adequate would be eligible for a supplemental retirement income program that would be funded through general revenues. The next step would be to greatly expand the current IRAs. Eventually, IRAs should allow the annual maximum contribution to equal the amount of both the employer and employee Social Security tax. It would allow individuals to purchase life, disability, and old age health insurance with the money saved in these accounts, in addition to the retirement investments currently permitted.

The next step is to allow individuals to deduct their annual contributions to the accounts from the Social Security payroll taxes. Individuals could also direct their employers to contribute the employer's share of the tax to the IRAs, with the employer again deducting this contribution for his own Social Security taxes.

Social Security benefits of individuals would then be reduced proportionately to the extent they took advantage of this option. For example, if an individual deducted 20 percent of his payroll taxes during his entire working life, his Social Security benefits would be reduced by 20 percent. Since individuals are replacing these lost benefits by benefits from the private sector alternatives, and since these alternatives should be superior to Social Security, individuals who took advantage of this option would receive higher benefits than under the current Social Security system.

Two further tax changes would be necessary. First, the benefits paid out of IRAs should be on the same tax basis as Social Security benefits are. Second, investments made through IRAs should be exempt from both branches of the double taxation of corporate income. These same tax rules should apply to life, disability, and old age health insurance policies purchased through IRAs.

After these changes, the government would continue to pay the otherwise promised Social Security benefits, as modified by the recommendatons from the commission that Congress adopts. The lost payroll taxes could be replaced by general revenues. Over time, the amount of this subsidy would decline as more individuals retired with a larger portion of their retirement benefits from the private alternatives. If the new tax exemptions for IRA investments and insurance purchases were delayed, the investment of Social Security taxes and IRAs would result in an increase in general revenues which would reduce the necessary general revenue subsidy. Eventually, either or both of these factors would offset the subsidy entirely.

We do not favor using general revenues to pay Social Security benefits except as a "buy-out" for a major reform of this type.

To alleviate the budgetary impact, the alternative should be phased in slowly over time. This could be done by first limiting the deductible amount of IRA contributions to 20 percent of Social Security taxes. This limit could be gradually raised to 100 percent over a 30 year period.

The fundamental objective of this plan is to assure that every worker would receive at least as much in benefits as they can expect to receive in the current Social Security system with today's younger workers receiving much more.

This plan will vastly increase private savings and investment. A sharp increase in savings and capital investment should result in a sharp increase in economic growth. Economists estimate that a permanent increase in savings and capital of 40 percent, which is approximately what this plan would generate when phased in, would result in a permanent increase in GNP of 19 percent. In today's economy, such an increase would mean over $2,500 for each person in the United States.

Young people would find their benefits would be several times the benefits they would have otherwise received through Social Security. Each individual would be free, within limits, to choose a packet of retirement and insurance coverage that best suited his own individual characteristics and preferences. The current Social

Security system is relatively inflexible and benefits cannot be customized. The inefficient waste of welfare benefits paid through the Social Security system would be eliminated.

Such a system would also not be subject to politically expedient manipulations. Benefits coud neither be overextended nor cut.

Personal liberty would be increased as individuals could choose their own package of retirement insurance protection. The reform would leave in place a requirement that individuals save for their old age and other insurance contingencies. All of this could be accomplished without increasing Social Security taxes or cutting Social Security benefits. Yet the long-term Social Security financing problem will have been solved. Our economy would also receive a much needed boost.

Mr. **Fowler**. Thank you, Mr. Davidson.

Mr. Kimmelman.

STATEMENT OF GENE KIMMELMAN, STAFF ATTORNEY, PUBLIC CITIZEN'S CONGRESS WATCH

Mr. **Kimmelman**. Thank you, Mr. Chairman. My name is Gene Kimmelman. I am staff attorney with the Public Citizen's Congress Watch. I appreciate the opportunity to testify before you this afternoon on the important issue of social security financing problems.

Many who have testified already this week and last week have focused on the finances of the social security system as opposed to the question of principle. I would like to address the question of the original principles of the Social Security Act.

Obviously, there are many ideas that went into this piece of legislation, but two important principles seem to emerge from most discussions of social security: First, that this is a contributory insurance system where benefits are related to what individual workers paid in; and second, that there is a social adequacy principle involved, where we try to make sure that retirees have a minimally adequate pension.

The recommendations of the Commission that have been discussed this week in some respects follow these principles and in some respects deviate from them. I would like to focus on those points that I believe deviate from those principles.

I think that the cost-of-living adjustment delay and the acceleration of payroll taxes are wrong-minded proposals. They need not be done at this point in time. They could be replaced with proposals that are more consistent with the original goals of the act.

First, the payroll tax increase. As has been mentioned already, we are facing dramatic payroll tax increases that are already scheduled in law this decade. What the Commission has done is increase those payroll tax increases by 33 percent within this decade. The question is why? The Commission did not look at the medicare program. One reason it did not look at the medicare program may be because of scheduled tax increases in medicare that possibly should be considered alongside the social security tax increases. For example, in 1985 medicare will increase from 1.30 percent tax to 1.35, in 1986 to 1.45.

If one looks further down the road, as Mr. Robertson has indicated, there already are Social Security Administration estimates that we will have a 2-percent medicare shortfall within 25 years. What was considered to be no problem before 1990 may already be a funding shortfall in 1986. And if one looks further down the road, we are talking about a possible 5 percent of payroll shortfall in 50 years.

The question is why increase these regressive taxes and not look at the medicare problem simultaneously? The Social Security Administration has already estimated that over 50 percent of American households pay more in social security tax if one includes the employer contribution as part of earnings. Then they pay an income tax. Why increase this burden of a regressive tax both on businesses and on employees?

Another problem, the cost-of-living adjustment delay. You have already heard many people testify about the $1,000 benefit reduction between now and 1990. This is, of course, important, particularly to low-income people.

But more important than the precise dollar figure is the fact that this breaches one of the fundamental principles of social security. Social security is meant to provide a minimally adequate pension. If you cut benefits through a cost-of-living adjustment delay, across the board for everyone, anyone near the poverty line now will be hurt and possibly driven into poverty. Is this the direction Congress wants to move social security down the road?

The taxation of benefits provision. We think this is one of the most reasonable concepts that the Commission dealt with and are glad that they finally moved toward an acceptance of the fact that benefits are income like anything else and should be taxed. It was never considered as an issue in the original Social Security Act, and it is just a historical anomaly that they were never taxed.

There is a problem, though, with the Commission's suggestion. It attempts to tax benefits only for high-income retirees, but by failing to index the taxation provision we will find down the road that all retirees will have to pay taxes on their benefits. This raises a question of whether the Commission was intending to tax everyone or just tax high-income individuals.

If you eliminate these proposals as we suggest, obviously you are going to run into a dramatic funding shortfall. So I would like to propose an alternative that I think is consistent with the original goals of the act.

When one looks at the taxation provision, why not treat social security as one does any other pension? Tax all the untaxed portion of benefits. This would be 80 percent of benefits, on average now. It would decline to about 50 percent over time. Just have this taxation provision, as the Commission suggested, come into effect at the $20,000 earnings level but then index it so it would remain there over time and not penalize middle-income people for saving money for their retirement; and then in return for putting a greater burden on high-income individuals, slowly phase out the retirement test, more commonly called the earnings test, possibly putting it at the level of the maximum taxable wage base down the road.

A second approach would be to increase the maximum taxable wage base $10,000 per year between now and 1987. It would put it at $75,000 then. This would mean higher income people would contribute more to the system, but it would also mean that through the bend point formula they would receive more benefits in the future.

Finally we believe that the medicare system, a program that should never have been part of social security because it is based on a different concept, should be pulled out of social security. By reallocating the payroll tax one could avoid both scheduled payroll tax increases between now and 1990 and the accelerated Commission plan. We could reduce medicare from 1.3 percent to 1 percent, put it in the Treasury, tax all wages as a flat tax on medicare, and retrieve most of the 0.3 percent that would then be allocated to social security.

Down the road, as Congress will have to deal with the medicare financing problem, we would build a one-half payroll tax and one-half general revenues funded medicare program. Social security would be entirely self financed without payroll tax increases.

We believe, in conclusion, Mr. Chairman, that these proposals are consistent with the original purpose of the act. They are just as much a potential consensus package as any other package, and should be viewed carefully by this committee before accepting the National Commission's proposals. Thank you.

[The prepared statement follows:]

STATEMENT OF GENE KIMMELMAN, STAFF ATTORNEY, PUBLIC CITIZEN'S CONGRESS WATCH

ABSTRACT

At stake in the current Social Security financing crisis is both money and principle. If Social Security is to remain the social insurance system it was originally intended to be, Congress must assemble a package of proposals that saves money without sacrificing Social Security's goals.

The recommendations of the National Commission on Social Security Reform represent a starting point for Congressional action. The Commission's proposals to: (1) extend coverage to nonprofit and new Federal employees; (2) eliminate preferential tax treatment for the self-employed; (3) improve coverage for widow(er)s; (4) eliminate windfall benefits; and (5) tax the benefits of high-income retirees, are consistent with Social Security's nondiscriminatory, social insurance principles. Unfortunately, this is not true of the remaining Commission recommendations.

The Commission's proposal to delay COLAs and increase payroll taxes undermines the social adequacy and contributory principles of Social Security.

COLA delay.—The Commission's COLA delay—equal to a $1,000 benefit cut by 1990—would destroy rather than protect the security of a minimally adequate retirement pension for the low-income elderly.

Accelerated tax.—The Commission's accelerated payroll tax, when added to scheduled Medicare and Social Security tax increases, would cost workers and employers—including the working poor—an additional 33 percent in regressive taxes by 1990, without increasing future benefits.

Congress should reject the Commission recommendations that would alter Social Security's course, and replace them with reasonable alternatives. Congress Watch proposes: Extension of Social Security coverage to new State and local government employees; expansion of the taxable earnings base up to $75,000 by 1988; taxation of the untaxed portion of benefits for high-income individuals (indexed); a phase-out of the retirement test; and a transfer of Medicare to the treasury after reallocating the Social Security tax.

These proposals are consistent with Social Security's original goals, and raise enough revenue to cover the System's longterm financial shortfall.

THE CONGRESS WATCH FINANCING PROPOSAL

	Short-term savings 1983–89 (billions)	Long-term savings percent of payroll
I. From the Commission's recommendations		
Cover nonprofit and new Federal employees	+20	+0.30

THE CONGRESS WATCH FINANCING PROPOSAL—Continued

	Short-term savings 1983–89 (billions)	Long-term savings percent of payroll
Eliminate windfall benefits for persons with pensions from noncovered employment	+0.2	+.01
Continue benefits on remarriage for disabled widow(er)s and for divorced widow(er)s	−0.1	
Index deferred widow(er)s benefits based on wages (instead of CPI)	−0.2	−.05
Permit divorced aged spouse to receive benefits when husband is eligible to receive benefits	−0.1	−.01
Increase benefit rate for disabled widow(er)s aged 50–59 to 71½ percent of primary benefit	−1	−.01
Revise tax basis for self-employed	+18	+.19
Reallocate OASDI tax rate between OASDI and DI		
Credit the OASDI Trust Funds, by a lumpsum payment for cost of gratuitous military service wage credits and past unnegotiated checks	+18	
Base automatic benefit increases on lower of CPI or wage increase after 1987 if fund ratio is under 20 percent, with a catchup if fund ratio exceeds 32 percent		
Additional recommendations		
Cover new State and local government employees	+13.5	+0.24
Taxation of untaxed portion of benefits for higher income persons, indexed based on wages	+33–35	+0.5
Phase-out retirement test	−15	−0.14
Increase taxable earnings base	+65–75	+0.5
Reallocate medicare tax	+40	+0.02
Pay administrative expenses from general revenues	+18.5	+0.15
Total	+209.8–221.8	+1.70

INTRODUCTION

Social Security, the backbone of American social policy, has done more than any other program to alleviate proverty in America. It helped replenish the lost savings of the Depression era, guaranteed a minimum living standard for elderly families without forcing them onto the dole, provided financial support to the disabled, and ultimately insured the elderly against major medical expenses.

Its success as public insurance, however, now threatens to precipitate its financial downfall. The Social Security System needs a great deal more money, both now and in the future, to remain solvent. The National Commission of Social Security Reform—which should be commended for its efforts—found enough money to save the System, yet may have sacrificed Social Security's goals in the process. This trade-off of money for principles is one we should not, and need not, accept.

Two main problems need to be addressed by a responsible financing proposal. First, poor economic conditions have caused a short-term depletion of Social Security reserve funds. High unemployment and protracted recession make it immediately necessary to pump a considerable amount of revenue into the system to keep in solvent. Second, changing demographics of the American population will create a long-term actuarial imbalance in the system. The retirement benefits of the large baby-boom generation, which will retire in about 2015, will be financed by the Social Security contributions of a much smaller workforce.

These problems can be solved by reasonable adjustments in financing consistent with Social Security's original goals. Yet rather than seek these solutions, the Commission focused on a consensus package of benefit cuts and revenue increases that save money, but alter the course of Social Security. Consensus is fine, but not when it clouds or distorts the substance agreed upon. In this case, the problems solved by the Commission bear little relation to the major issues Social Security was originally meant to address.

Rather than hold Social Security hostage to a particular package of recommendations, Congress should build the Commission's proposals into a better solution to Social Security's problems. In addition to finding the dollars to solve the short-term economic and long-term actuarial problems, Congress must develop a consistent approach to Social Security financing. The American workers who pay into the system need to be assured that the Social Security they expect to receive upon their retirement will be a fair embodiment of the program's original concept, not just a financial patchwork program that maintains the name.

The American people have demonstrated a desire to see the promise of FDR's Social Security fulfilled. To accomplish this, one must interpret the original goals of its founders in light of modern financial conditions. Congress Watch proposes a method of adjusting Social Security to meet the longstanding expectations of those who first framed the system. What follows is a description of those goals and an analysis of how the Commission's financing proposal relate to them. Finally, Congress Watch proposes financial adjustments that further the original intent of the Social Security program and save the System enough money to make it secure well into the twenty-first century.

I. THE SOCIAL INSURANCE GOALS OF SOCIAL SECURITY

"Today a hope of many years' standing is in large part fulfilled. The civilization the past hundred years, with its startling industrial changes, has tended more and more to make life insecure. Young people have come to wonder what would be their lot when they came to old age. The man with a job has wondered how long the job would last * * *

"We can never insure 100 percent of the population against 100 percent of the hazards and vicissitudes of life, but we have tried to frame a law which will give some measure of protection to the average citizen and to his family against the loss of a job and against poverty-ridden old age.

"This law, too, represents a cornerstone in a structure which is being built but is by no means complete. It is a structure intended to lessen the force of possible future depressions. It will act as a protection to future administrations against the necessity of going deeply in debt to furnish relief to the needy. The law will flatten out the peaks and valleys of deflation and of inflation. It is, in short, a law that will take care of human needs and at the same time provide for the United States an economic structure of vastly greater soundness."—President Franklin D. Roosevelt, upon signing the Social Security Act, August 14, 1935.

As with all complex legislation, the original Social Security Act was born of political compromise. The 1953 Act represents the distillation of the political views of the Roosevelt Administration, FDR's Committee on Economic Security, and Members of Congress. It encompasses everything from immediate efforts to relieve the burdens of the Depression, to FDR's goal of remedying "the great disturbing factors in life—especially those relating to unemployment and old age." [1]

Despite the complexity of the legislative history,[2] the legislation clearly adheres to a set of goals. The Social Security Act borrowed concepts from insurance, annuity, and welfare programs in an effort to protect the living standard of workers whose capacity to earn had been impaired. In particular, the objective was "to assure support for the aged as a right rather than as a public charity, and in amounts which will insure not merely subsistence but some of the comforts of life." [3]

A key element of Social Security is the payroll tax. Rather than provide benefits only for the needy, or fund equal pensions for everyone through the progressive income tax system, Congress chose to link benefits directly to past wages. The more an individual pays into Social Security, the more he receives in retirement (and since 1956, disability) benefits. The payroll tax reflects an insurance principle, whereby workers pay an insurance premium to the government in return for protection against income loss due to retirement, death or disability. This pooled sharing of risk is the cornerstone of the System's protection against diminished earning capacity. The insurance goal of Social Security is best described by the Committee on Economic Security:

> The satisfactory way of providing for the old age of those now young is a contributory system of old-age annuities. This will enable younger workers, with matching contributions from their employers, to build up a more adequate old-age protection than it is possible to achieve with noncontributory pensions based upon a means test.[4]

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[1] Presidential Message to the Congress Reviewing the Broad Objectives and Accomplishments of the Administration, H.R. Doc. No. 397, 73rd Cong., 2d Session (1934).

[2] Many amendments to the Act, ranging from the 1939 pay-as-you-go provisions to the creation of Disability Insurance in 1956, maintain these original goals. Benefit adjustments fall within this range. The only major conceptual addition to the system was in 1965 when Medicare became part of Social Security. Although health care certainly relates to Social Security's social adequacy concerns, its benefit formula and goals fall outside the system's traditional work-dislocation forces.

[3] Report of the Committee on Economic Security, January 15, 1935 (reprinted in R.B. Stevens, Statutory History of the United States: Income Security 92 (1970)).

[4] House Report, op. cit., at 3.

Social Security's second goal is to provide all beneficiaries with an equitably financed, adequate pension. The Committee on Economic Security reported that "[a] program of economic security, as we vision it, must have as its primary aim the assurance of an adequate income to each human being in childhood, youth, middle or old age . . ." [5]

This notice of "adequacy" altered the insurance concept dramatically. First, in contrast to private insurance plans, contributions were set at the same rate for everyone—totally pooled risk-sharing—rather than separate rates for each risk group. Second, low-wage workers were provided proportionately larger benefits than high-wage workers.[6] These social adequacy components made Social Security a social insurance program, guaranteeing workers—and later their families—an adequate living standard when they could no longer work.

The final goal of the founders was to extend Social Security coverage to as many individuals as possible.[7] Compulsory coverage was initially limited for practical reasons, but subsequent legislation has brought over 90 percent of the American workforce into the system.[8] Universal coverage aims at achieving optimal levels of risk-sharing among workers, and pension protection for individuals who would not or could not participate in private pension plans.

II. THE SOCIAL INSURANCE GOALS OVER TIME

Public confidence in Social Security depends upon the consistent pursuit of the original Act's objectives. Past changes in tax rates, benefit structures, and benefit amounts have in general—with the exception of Medicare—been consistent with the Act's goals. The current financing problems which Social Security faces do not justify modifications which undermine the intent of the Act. Broad public support for the program in its present form requires financing adjustments that are economically sound and preserve FDR's social insurance concept.

III. THE COMMISSION'S RECOMMENDATIONS

A. Proposals consistent with social insurance concept

A number of the Commission's proposals fall squarely within the original goals of Social Security. First, the expansion of Social Security coverage to all nonprofit and new Federal employees is inherently consistent with the System's broad risk and cost-sharing principle. Second, the elimination of preferential tax treatment for the self-employed, windfall benefits, and inadequate coverage of widow(er)s are consistent with Social Security's nondiscriminatory risk-sharing concept.

Third, the Commission recommendation to tax part of benefits is a reasonable interpretation of Social Security's original purpose. Although benefits have never been subject to the Federal income tax, this is not because of any provision in the original Social Security Act.[9] Instead, this policy stems from a 1941 Internal Revenue Service administrative ruling that treated benefits as "gratuities."[10] Since Social Security is meant to provide no more than an adequate pension based on contributions, it is reasonable to reduce the benefits of those who need them least—the wealthy elderly. Unfortunately, the Commission's specific benefit taxation proposal is not indexed to wages, and therefore cuts too deeply into the future retirement needs of America's middle class.

B. Proposals inconsistent with the social insurance concept

The largest ticket items in the Commission's package alter the course of the Social Security System. The six-month cost-of-living-adjustment (COLA) delay, and majority proposal to raise the retirement age, would destroy Social Security's minimally adequate pension protection. While these proposals—both of which are, in reality, future benefit reductions—may not dramatically harm the majority of workers or beneficiaries, when applied across the board, they threaten the adequacy of benefits for those who need them most. Similarly, the payroll tax acceleration, coupled with the already scheduled 1985 and 1990 payroll tax increases, would skew the Social Security System against low and moderate income wage earners.

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[5] Ibid., at 4.

[6] Ibid., at 5. It is significant that the Preliminary Report of the CES recommended that old persons "'should be granted old age pensions, in an amount sufficient to enable them to live in decency and dignity in their homes . . ."

[7] Old-Age Pension System. Sen. Report 666, 77th Congress, 1st Session (1941).

The report recommended extending Social Security "to provide for as universal coverage as possible." It added, "We recommend an immediate, detailed, investigation into the best method of extending the coverage of the insurance system to all self-employed groups, farmers, and farm workers, employees of the Federal Government, of states, counties and municipalities and all other employed individuals who are not now covered by the system."

[8] "The Desirability and Feasibility of Social Security Coverage for Employees of Federal, State and Local Governments and Private, Nonprofit Organizations." Universal Social Security Coverage Study Group. March, 1980.

[9] Mickey D. Levy, The Tax Treatment of Social Security. American Enterprise Institute, Washington, D.C. 1980, 1982.

[10] Ibid., at 3.

1. COLA delay.—The six-month COLA delay, which represents over $1,000 in benefit cuts for each Social Security beneficiary between now and 1990, would drive many elderly Americans into poverty. Such a breach of Social Security's social adequacy principle undermines the very notion of security that underlies the System.

Any decrease in COLA's will undermine the social insurance concept of the original Act. Social Security participants share in the general growth or decline of standards of living during their working lives. Upon retirement, a worker's standard of living is frozen for the duration of his entitlement. Beneficiaries neither reap rewards from economic growth nor pay the costs of economic decline. This structure reflects the notion that a working person's ability to weather a weak economy and his potential for real income gains during some future, more favorable, economic climate is much greater than it is for a disabled or retired person. The Commission's COLA delay abrogates this principle.

2. Increased retirement age.—The increased life expectancy of the American people has raised questions about the appropriate age for payment of retirement benefits. The original choice of age 65 in the 1935 Act was not based on any particular logic, other than a comparison with the German retirement standard.[11] Therefore the Commission's majority recommendation to raise the retirement age to 66 and then higher down the road, based on increased longevity, appears quite reasonable. Yet the logic of this proposal is based on an untested premise—that increased life expectancy means reasonable health in old age.

Recent trends of increased early retirement, despite improved longevity, raise questions about this assumption. A more important concern than life expectancy in devising a reasonable retirement age is the health of older workers. It makes no difference that people live longer if they are unable to work past age 65. Although no conclusive data is available, statistics from the 1970s indicate that work activity among the elderly has decline due to increased illness.[12] Also, over one-half of the workers who leave the workforce at age 62, do so for health reasons.[13]

Raising the retirement age would cut benefits for all recipients and penalize the least healthy workers—many of them blue collar workers—for their work environment. Individuals would have to pay more into the system and wait longer to receive benefits. Low-income individuals, who have health problems that fall short of disability insurance eligibility, or who lose their jobs,[14] would face a 7 percent reduction. The rising life expectancy of an increasing white collar population does not justify abandonment of adequate social insurance for less healthy and less wealthy blue collar workers.

3. Payroll tax acceleration.—Social Security payroll taxes, including Medicare, are already scheduled to increase, for both employers and employees, from their current 6.7 percent rate to 7.05 percent in 1985, 7.15 percent in 1986, and 7.65 percent in 1990. The Commission recommends accelerating these tax increases from 1985 to 1984, and 72 percent of the 1990 increase to 1988 and 1989. This would mean that all individuals and businesses, both wealthy and poor, would face a 33 percent payroll tax increase beyond the currently scheduled 6.6 percent increase between now and 1990.

Although the payroll tax is the backbone of a contributory social insurance system, such dramatic tax increases skew Social Security's contributory calculus against those who earn the least. Twenty-five percent—or almost fifty percent, if one views the employer's tax as a reduction in wages—of U.S. taxpaying households already pay more in Social Security than income taxes.[15]

If the remainder of the long-term financing shortfall is met by payroll tax increases, American workers and businesses will face approximately a 6.5 percent further Social Security tax increase around the turn of the century. While the Commission proposes an income tax credit to offset the 1984 increase, and a number of commissioners recommend the same for future increases, it makes no sense to choose a regressive tax and then justify its choice by eliminating the regressivity. If payroll tax increases undermine Social Security's social adequacy goals by overburdening low-income workers, they should not be instituted. A quick glance at Medicare financing shows the long-term danger of reliance on a regressive payroll tax.

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[11] Bruno Stein, *Social Security and Pensions in Transition*, The Free Press, New York, 1980.

[12] National Commission on Social Security. Final Report. March 1981, at 331.

[13] Social Security Bulletin. June, 1971.

[14] In most cases, Unemployment Insurance provides only meager protection against income loss.

[15] Social Security Administration estimates.

4. Failure to deal with medicare.—The major weakness in the Commission's report is its failure to consider Medicare, when proposing alterations in the Social Security payroll tax. The cost of Medicare's Hospital Insurance (Part A) program, currently 1.3 of the 6.7 percent Social Security tax, is scheduled to double within five years.[16] Social Security Administration actuaries estimate that the Medicare payroll tax—currently scheduled to increase to 1.35 percent in 1985 and then 1.45 percent in 1986—must grow another 0.75 to 1.0 percent within 25 years and 2.5 percent within 50 years, for both employees and employers, to meet the skyrocketing costs of medical care.[17]

The impact of a Social Security payroll tax increase depends, to a large degree, on the financial status of the Medicare program. If Medicare remains payroll-tax financed, and the Commission's recommendations are implemented, each American worker and employer will face between a 10.0 and 10.5 percent payroll tax burden within 50 years. Clearly, Congress should not trap itself and the American people by viewing the taxes needed to finance Social Security and Medicare in isolation. Before accepting the Commission's accelerated payroll tax proposal, it is important that Congress address the problem of rising Medicare costs.

IV. AN ALTERNATIVE PROPOSAL

Using the Commission's recommendation as a starting point, it is possible to devise a Social Security financing proposal that is consistent with the program's long-standing goals. The Commission recommendations that are consistent with Social Security's purpose (see § III. A., supra) will bring an additional $74.8 billion into the system by 1990. These include:

1983–89 savings

Proposal	*In billions*
Military lump sum credit	+18
Full self-employment tax	+18
Cover nonprofit and new Federal employees	+20
Taxation of benefits for higher income persons	+[1] 20
Eliminate windfall benefits	+0.2
Increase benefits rate for disabled widow(er)s	−1.0
Index deferred widow(er)'s benefits based on wages	−0.2
Continue benefits on remarriage for disabled widow(er)s and for divorced widow(er)s	−0.1
Permit divorced aged spouse to receive benefits when husband is eligible to receive benefits	−0.1
Total	+74.8

[1] This figure includes only the savings associated with wage indexation of the taxation proposal, at $20,000/25,000.

Since the Commission's COLA delay, payroll tax acceleration, and part of the benefit taxation proposal are inconsistent with Social Security's original goals, they should not be implemented. Instead, Congress could: Tax the untaxed portion of benefits, indexed for wages, for higher income persons; then phase-out the retirement (earnings) test; expand coverage to new State and local government employees; increase the taxable earnings base $10,000 per year until 1988 (making it $75,000) and then adjust it by average wages, as in current law; reallocate the payroll tax, shifting 25 percent of the Medicare tax to Social Security and transferring Medicare to the Treasury, pay Social Security's administrative costs out of general revenues.

These five proposals would generate an additional $135 billion by 1990, which, when added to the $74.8 billion from the Commission's recommendations, covers almost the entire long-term Social Security financing shortfall.

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[16] *Briefing Book*, National Commission on Social Security Reform, November, 1982.

[17] 1982 Hospital Insurance Trustees Report.

A. Taxation of Benefits

As pointed out earlier, the Federal government's failure to tax Social Security benefits is more an historical anomaly than a conscious policy of Social Security's founders. Since a large portion of benefits is not otherwise subject to the Federal income tax—the employer contributions and government COLA and indexing add-ons are not taxed—it is appropriate to treat this portion of benefits as taxable income, when received by the beneficiary. Currently, this untaxed portion is, on average, just over 80 percent of benefits. Over time, this percentage will dwindle to 50 percent as the contribution-benefit ratio rises.

1. Indexation.—The Commission recognized both the logic of taxing benefits, and the need to protect low-income retirees from a benefit reduction. It therefore proposed that only elderly individuals with adjusted gross income above $20,000, or $25,000 for couples, have their benefits taxed. Unfortunately, the Commission's protection of a minimally adequate pension did not extend into the future.

Unless the income threshold at which benefits become taxable is indexed the majority of older Americans will suffer benefit reductions by the turn of the century. As average wages increase over time, the Commission's $20,000 income threshold will begin covering more than "high-income persons." The percentage of older Americans who would pay taxes on their benefits—currently only 11 percent—will rise to over 40 percent within ten or fifteen years. To guarantee retirees an adequate pension, and give them an incentive to save for their retirement years, the taxation threshold should be indexed for annual average wage changes.

If all the untaxed portion of benefits were subject to the Federal income tax—not just the 50 percent proposed by the Commission—it would be possible to index the tax at $20,000/25,000 adjusted gross income, and bring $33-35 billion into the Social Security system by 1990.[18] This would protect the retirement earnings of most Americans, placing the largest burden on current high-income beneficiaries who rely on Social Security for a small percentage of their retirement needs.[19]

2. The retirement test.—In return for accepting this taxation proposal, the high income elderly should be relieved from the burden of Social Security's retirement test. The retirement test is a discriminatory, onerous tax on benefits, that should be replaced with a reasonable tax scheme. The test subtracts one dollar in Social Security benefits for every two dollars of income over $6600 earned by retirees up to age 70. This is the equivalent of a 50 percent marginal tax on benefits for individuals who earn (approximately) from $7000 to $24,000 (depending on their benefit level). Beyond that level of earned income, benefits are eliminated.

The rationale for the retirement test is that people over 65 years of age who continue to receive income from work have less need for Social Security benefits. The test discriminates against wage earners by not applying that same logic to elderly individuals who receive income from capital or assets. The test presumes that a working person earning $20,000 should not receive Social Security benefits, even though a retired person with substantial interest and dividend income may receive his full benefit. If the retirement test's income threshold were increased to the taxable wage base limit, (currently $35,700) then taxation of benefits would uphold the logic of the retirement test while eliminating its inequities.

B. Expand coverage to new State and local government employees

Despite constitutional problems, Congress should attempt to make Social Security coverage as broad as possible. While the Commission sought to cover all workers, it excluded State and local government employees for fear that Federal taxation of State and local governments is unconstitutional. Congress may be able to avert this constitutional problem be requiring only State and local government employees to pay the Social Security tax, and providing incentives for voluntary payment of the employer's tax by these governmental entities. Regardless of how it is implemented, the principle of universal coverage is so important to Social Security that Congress should not hesitate to challenge this interpretation of the Federal Constitution. If coverage were expanded to include new State and local government employees, Social Security would gain $13.5 billion in revenue by 1990.[20]

C. Increase the taxable earnings base

The most equitable method of bolstering Social Security's revenue base without deviating from its social insurance principles would be to increase the taxable earnings base. Currently, workers and employers pay a 6.7 percent payroll tax on all earnings up to $35,700, then no more tax is paid on additional earnings. This limit is adjusted annually to reflect changes in the average worker's wage. Retirees' benefits are then calculated on the basis of annual payroll tax contributions, with high-income workers receiving a larger benefit—though smaller percentage of previous earnings—than low-income workers. A gradual increase in the taxable earnings base would expand the scope of Social Security's flat-rate payroll tax, requiring high income workers to pay more into the system, in return for larger benefits.

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[18] This figure is an extrapolation from projections in the *Report of the National Commission on Social Security Reform*, January 1983.

[19] Levy, *op. cit.*, at 13.

[20] *Report of the National Commission, op. cit.*, Appendix K, at 6.

An annual $10,000 taxable earnings base increase between now and 1988 would not have a dramatic effect on the take-home pay of most workers. First, all workers earning less than approximately $39,000 would not be affected at all, due to next year's scheduled earnings limit increase. Second, if this proposal is coupled with Congress Watch's payroll tax realignment (see infra at § IV. D.), workers earning approximately $1000 over the currently scheduled earnings cap would save as much money from a payroll tax reduction (about $70) as they would have to pay into the system on their last $1000 of earnings. Third, the Social Security actuaries estimate that average wages will drive the taxable earnings cap up over $50,000 by the end of the decade, leaving only workers with earnings between $50,000 and $75,000—the major beneficiaries of the Reagan tax cut—hurt by the earnings base expansion. If this proposal were implemented, and then indexed after reaching a $75,000 cap in 1987, Social Security would bring in an extra $65–75 billion by 1990.

D. Reallocate the payroll tax; transfer medicare to the Treasury

Medicare was added to Social Security in 1965, as a health-care component to the system's retirement income protection. Funded by the payroll tax, Medicare's Hospital Insurance (Part A) [21] pays a large portion of the hospital expenses of long-term disabled or retired individuals.

Although an important weapon in the fight to protect the general welfare of the elderly, Medicare does not fit within Social Security's original goals. Contrary to Social Security's insurance principle, Medicare benefits are based on hospital costs rather than individual contributions. Medicare's focus on hospital expenses also runs counter to the system's social adequacy goal of providing more benefits to those whose living standard is inadequate. Furthermore, Medicare's long-run financing problems are more related to increased demand for health care, advanced medical technology, and insufficient marketplace competition, than Social Security's actuarial imbalance.

Given these differences between Medicare and Social Security, it is appropriate to separate the two programs. Without disturbing the current payroll tax mechanism, receipts from the Medicare tax could be placed in a special trust fund in the Treasury, rather than allocated to the Social Security trust funds (OASDI–HI). Before completing this bookkeeping change, however, the division of payroll tax revenues should be reexamined.

Congress Watch proposes a 27 percent shift from the Medicare to the Social Security payroll tax. This would reduce the Medicare tax from 1.3 to 1.0 percent of earnings, and increase Social Security from 5.4 to 5.7 percent. The 1.0 percent Medicare payroll tax would not be increased, as scheduled under current law in 1985 and 1986. However, the earnings base cap of the Social Security system would not apply to Medicare, making Medicare a 1.0 percent flat tax on all income. This change is justified, since unlike Social Security, the Medicare benefit—equal to the value of health care service—is unrelated to the worker's Medicare contribution.

1. Medicare down the road.—This alteration in Medicare financing would ultimately result in a one-half payroll tax, one-half general revenues financed program. The reduced Medicare tax would leave a $40 billion revenue shortfall by 1990, reduced by a $27 billion revenue increase from the flat tax on income above $35,700, and $5.2 billion from extension of coverage to nonprofit and new Federal, State and local government employees. The remaining $7.8 billion shortfall could either be financed through repayment by Social Security of its $12.4 billion 1982 loan from Medicare, or from general Treasury revenues. As the cost of Medicare rises, general revenues would be piped into the system until a 50–50, payroll tax-general revenues mix is achieved. This funding mechanism would hold down the growth of regressive payroll taxes, and pressure the Federal government to address Medicare's financing problems head-on.

2. Social security down the road.—The 25 percent payroll tax transfer from Medicare to Social Security would eliminate until 1988, the need for any payroll tax increases. This $40 billion transfer from Medicare would provide the same revenue as the Commission's payroll tax acceleration proposal, and delay the 1985 tax increase scheduled under current law until 1988. In the long run, the Social Security tax would be 0.3 percent less than projected under both current law and the Commission's report.

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[21] Part B, Supplemental Medical Insurance, is funded separately through general revenues and individual premiums.

TABLE 1.—SOCIAL SECURITY AND MEDICARE PAYROLL TAXES

[In percent]

Year	Current law			Commission			Congress watch		
	OASDI	HI	Total	OASDI	HI	Total	OASDI	HI	Total
1983	5.4	1.3	6.7	5.4	1.3	6.7	5.4	1.3	6.7
1984	5.4	1.3	6.7	5.7	1.3	7.0	[1] 5.4 + 0.3	1.0	6.7
1985	5.7	1.35	7.05	5.7	1.35	7.05	5.4 + 0.3	1.0	6.7
1986	5.7	1.45	7.15	5.7	1.45	7.15	5.4 + 0.3	1.0	6.7
1987	5.7	1.45	7.15	5.7	1.45	7.15	5.4 + 0.3	1.0	6.7
1988	5.7	1.45	7.15	6.06	1.45	7.51	5.76 + 0.3	1.0	7.06
1989	5.7	1.45	7.15	6.06	1.45	7.51	5.76 + 0.3	1.0	7.06
1990	6.2	1.45	7.65	6.2	1.45	7.65	5.9 + 0.3	1.0	7.2

[1] This 0.3 is the tax transfer from Medicare to Social Security.

OASDI—Old Age, Survivors and Disability Insurance (Social Security). HI—Hospital Insurance (Medicare).

This realignment of social security and Medicare would bolster Social Security's self-financing principle, highlight Medicare's unique needs, and protect workers and employers against substantial payroll tax increases.

E. *Pay Social Security's Administrative costs out of general revenues*

The administrative costs of running the Social Security program are currently financed through the payroll tax. In contrast, the administrative expenses of the Federal Civil Service Retirement, Veterans' Insurance, Highways and Airports trust funds are paid by general revenues. A shift in financing Social Security's administrative expenses would put all these Federal trust funds programs on equal footing, and leave payroll tax revenues to fund nothing but benefits. This proposal would save the Social Security system $18.5 billion between now and 1990.[22]

TABLE 2.—THE CONGRESS WATCH FINANCING PROPOSAL

	Short-term savings 1983–89 (billions)	Long-term savings percent of payroll)
I. From the Commission's recommendations:		
Cover nonprofit and new Federal employees	+20	+.30
Eliminate windfall benefits for persons with pensions from noncovered employment	+0.2	+.01
Continue benefits on remarriage for disabled widow(er)s and for divorced widow(er)s	−0.1	—
Index deferred widow(er)'s benefits based on wages (instead of CPI)	−0.2	−.05
Permit divorced aged spouse to receive benefits when husband is eligible to receive benefits	−0.1	−.01
Increase benefit rate for disabled widow(er)s aged 50–59 to 71½ percent of primary benefit	−1	−.01
Revise tax basis for self-employed	+18	+.19
Reallocate OASDI tax rate between OASDI and DI	—	—
Credit the OASDI Trust Funds, by a lump-sum payment for cost of gratuitous military service wage credits and past unnegotiated checks	+18	—
Base automatic benefit increases on lower of CPI or wage increases after 1987 if fund ratio is under 20 percent, with a catchup if fund ratio exceeds 32 percent	—	—
Additional recommendations:		
Cover new State and Local Government employees	+13.5	+0.24

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[22] *Report of the National Commission, op. cit.*, Appendix K at 14.

Table II.—THE CONGRESS WATCH FINANCING PROPOSAL—Continued

	Short-term savings 1983–89 (billions)	Long-term savings percent of payroll)
Taxation of untaxed portion of benefits for higher income persons, indexed based on wages	+33–35	+0.5
Phase-out retirement test	−15	−0.14
Increase taxable earnings base	+65–75	+0.5
Reallocate medicare tax	+40	+0.02
Pay administrative expenses form general revenues	+18.5	+0.15
Total	+209.8–221.8	+1.70

CONCLUSION

The National Commission on Social Security Reform recommends a number of financing proposals that place Social Security on firm footing but sacrifices its traditional goals. If instead of delaying COLAs and increasing payroll taxes, Congress would expand the earnings base and separate the Medicare program, Social Security could be made financially secure, and its original social insurance principle would be preserved.

Mr. **Fowler**. Thank you, Mr. Kimmelman, for another thoughtful presentation.

Mr. Haislmaier.

STATEMENT OF ED HAISLMAIER, HYATTSVILLE, MD.

Mr. **Haislmaier**. Thank you, Mr. Chairman. I am appearing before this committee as a private citizen, but I feel that my views are representative of a great number of young Americans.

Mr. Chairman, social security reform is one of the most important questions now before this Congress. It is a question of enormous significance, for it affects not only every living American but future generations as well. This Congress cannot escape the fact that any decision it makes concerning social security will have a profound effect upon posterity. Nor can it escape the inevitable judgment of that posterity. It, is, therefore, imperative that in considering social security legislation Congress be particularly mindful of its greater constituency, that of future generations.

Already today the vast majority of young Americans have little or no confidence in the social security system. Indeed, an ever increasing number of them are opposed to the continued existence of social security in anything but a voluntary form.

The reasons for this should be obvious. Social security is irrevocably bankrupt. By its very nature, it was destined for bankruptcy from the beginning. Because it is an income transfer scheme funded by a regressive tax structure, it will inevitably destroy its own tax base. It is estimated that up to 2.2 million jobs could be lost over the next 6 years if Congress agrees to the higher social security taxes now under consideration. As these jobs are lost, so too is the revenue needed to pay for social security. Yet the proposal before this committee indicates that Congress still believes it can continue to cover the system's deficits by raising taxes even higher.

Not only is this belief economically unsound, it is politically myopic. In order to continue the social security system in anything like its present form, it will be necessary to force younger Americans to shoulder a staggering burden. Already, under the current system a new worker today faces a maximum annual social security tax as much as 66 times greater than his father faced when he began working. And yet, when the father retires, he will receive in benefits as much as five times the amount he contributed to the system while his son will almost certainly never see his total contribution returned to him even once.

Even this sorry plight of today's workers, however, pales when compared to the burdens which the next generation of workers will face. New workers in 1990 will not only face maximum annual social security taxes twice the size of those faced by workers today but will also be held responsible for financing throughout their lifetimes the remaining unfunded social security liability which Congress has so cavalierly created.

The magnitude of this liability is virtually incomprehensible. Now estimated at $6 trillion, it should be no surprise, then, that young Americans are unwilling to maintain the present social security system. It is no wonder that young Americans consider unjust a social security system that takes a 13-percent tax from the meager salary of a teenager working at a minimum wage and then distributes it to beneficiaries, 20 percent of whom have incomes in excess of $20,000.

It is no wonder that young Americans object to supporting a social security system that taxes away any hope a young couple has of saving a down payment for a home while 70 percent of the recipients of their tax money own their own homes free and clear.

It is no wonder that young Americans want to abolish a social security system which takes more from their paycheck in the first 5 to 10 years of their working lives than any other tax, including Federal income tax, yet gives them nothing in return.

The simple fact is that the social security system which might once have been a reasonable program to assist an impoverished senior citizenry is now little more than intergenerational grand theft. And that theft is not measured only in dollars and cents. What is really being stolen from us is those opportunities which today's senior citizens took for granted: To have a job, to own a home, and to give our children the chance for a better life.

Young Americans demand that Congress genuinely reform the social security system. Tinkering will not do. We demand a fundamentally altered system that can provide for those justifiable needs of the elderly without unnecessarily burdening the young.

We remind you we are your posterity, and we will be heard.

Mr. Fowler. What about student loans?

Mr. Haislmaier. I worked my way through college, Mr. Chairman. I never took a dime in student loans. And I would love to see them abolished tomorrow.

Mr. Fowler. What is your business now, Mr. Haislmaier?

Mr. Haislmaier. I am a writer. Currently, I am unemployed, doing free lance or whatever work I can pick up.

Mr. Fowler. You turn a nice phrase. [Laughter.]

Mr. Haislmaier. Thank you, Mr. Chairman.

Mr. Fowler. Mr. Bush.

STATEMENT OF ERNEST A. BUSH, GREERS FERRY, ARK.

Mr. **Bush**. Mr. Chairman and committee members, I have furnished a written statement for the files. I would like to present at this time my comments. My name is Ernest Bush. I am a retired CPA. I spent my working years in Iowa. I am presently residing in Greers Ferry, Ark.

Mr. **Fowler**. We are glad to have you proceed, Mr. Bush.

Mr. **Bush**. The social security retirement benefit system is in drastic need of reform. Financially the system is bankrupt. The majority of young people paying into the system feel that they will never draw benefits. This belief is supported by the prospect 30 years from now of two workers paying 25 percent of their salaries to support one retiree.

In recent years operation of the system has made of retirees a privileged welfare group. Today's overinflated schedule of benefits can be reduced below $100 billion per year without being unfair to anyone.

A social security pension payment is primarily welfare. The complicated formula used to determine the benefits to be paid has no relation to reality. Since 1950 no one has paid total social security taxes in excess of $16,500. Information furnished by Central Life Assurance Co. of Des Moines, Iowa, indicates that for $16,500 a person age 65 could purchase a lifetime series of monthly payments as follows: A man, $185; a woman, $170; a couple, $156. Any amount paid in retirement benefits in excess of the above figure is welfare.

Welfare payments should be kept at a minimum. Welfare should be dispensed on the basis of need. It is wrong that retirees can recover their entire cost in the program in 2 years or less and continue to collect these inflated benefits for life.

The program of cost-of-living adjustments, or COLA's, has been a disaster because of excessive cost, adverse effects on the economy and employment, and errors in computing the COLA amount. The compounded effect of the COLA's over the period 1975 through 1982 has been to increase the retirement benefits by 94.4 percent.

Research has shown that increasing payroll taxes increases unemployment. During the past 8-year period social security taxes have increased 281 percent. In the interest of economic efficiency, I am proposing that the social security tax rate and the maximum taxable earnings base be reduced to 5 percent on $20,000.

A cost-of-living increase should be the same dollar amount for each beneficiary. The percentages used in computing the annual COLA's should never have been applied across the board to all levels of pension benefits. As a result, hundreds of billions of excess dollars have been transferred to middle income and wealthy retirees.

Since 1970 average social security benefits adjusted for inflation have risen a remarkable 37 percent; average weekly wages adjusted for inflation have not increased at all. COLA's based on the CPI have overprotected the elderly from the effects of inflation at the rate of 2 percentage points per year.

I have constructed a reduced schedule of retirement benefits to replace the one now being used. I have based my computations on average yearly earnings, of $3,000. The result of those computations has reduced the maximum benefit amount on the present schedule by about $200. In applying the reduced schedule to current beneficiaries, there should be no benefit reduction for a single person whose other income does not exceed $8,000 per year or a couple whose other income does not exceed $12,000.

Social security pension benefits should be taxed except for the recovery of a beneficiary's cost, which is the total social security taxes paid in during his working years. Except for the recovery of his cost over his life expectancy, a beneficiary should be taxed on 100 percent of his retirement benefits in the same manner that all of his other income is taxed. Most present retirees have long since recovered their cost tax free, and should be taxed at 100 percent.

I am proposing that we impose a new tax, a retirement benefits tax, on social security benefits. It relies on Federal income tax figures and related tax tables. But its idea is to achieve horizontal equity between two retirees who have the same income resources available but follow different investment, personal expenditure or tax avoidance policies. Likewise, I am asking that other forms of retirement benefits be subject to this tax so that they can be used to directly support and undergird the basic retirement system we call social security.

On the basis of income distribution, most social security beneficiaries have the capacity to adjust to inflation and reduced benefits. Their income distribution compares favorably with that of the American people as a whole. The last figures on income distribution for the elderly put out in October 1981 by the Social Security Administration cover the year 1978. For that year retirees on social security collected social security 38 percent, earnings 23 percent, other pensions 16 percent, and asset income 19 percent.

Out of their total social security taxes workers should be entitled to have reasonable and orderly payments made into a reserve fund. Those payments should be mandatory and should be made before money is spent on benefits. I have proposed that a retirement reserve fund of $2 trillion be accumulated. The accumulated reserve is necessary to alleviate difficult financing problems 30 years from now.

Congress should stop treating the elderly as a privileged welfare group. Social security should be changed to a program under which benefits are determined on the basis of need. Social security should be given a zero inflationary bias. This means no more increases in the social security tax rate or the maximum taxable earnings base. No more increases in the schedule of benefits, no more COLA's. With no inflationary pressure from social security Congress can work to control inflation for the benefit of all Americans.

Mr. FOWLER. Thank you, very much Mr. Bush.

Thank you all very much.

[The prepared statement follows:]

STATEMENT OF ERNEST A. BUSH, GREERS FERRY, ARK.

INFORMATION FOR THE SUBCOMMITTEE ON SOCIAL SECURITY

1. Ernest A. Bush, Route 1, box 70, Greers Ferry, Arkansas 72067, (501) 825-7434, Individual retiree on Social Security.

2. No clients, persons, or organization.

3. Topical outline or summary of comments and recommendations: A Social Security pension payment is primarily welfare. Changes in benefits can be made; there is no legal enforceability of benefit promises.

The program of COLA's has been a disaster because of cost, adverse effects on the economy and unemployment, and computing the COLA amount too high. Reduce the payroll tax rate and maximum taxable earnings base to 5 percent on $20,000. A reduced schedule of retirement benefits should be used reflecting the proper computation of COLA for each year since 1974. Social Security pension benefits should be taxed under a new tax, the Retirement Benefits tax. Other forms of retirement benefits should also be suject to the Retirement Benefits tax.

On the basis of income distribution most Social Security beneficiaries have the capacity to adjust to inflation and reduced benefits. Make the old age pension portion of the Social Security system an independent agency. Establish a fifteen member board to administer this new agency. Broaden the number of workers to be covered by Social Security to include all Federal, State and local, and nonprofit employees forty years of age and younger. Eliminate both the retirement earnings test and minimum wage for persons aged 65 and older. Make other changes to improve and simplify the program.

SOCIAL SECURITY REFORM

The Social Security system is in drastic need of reform. Attendance at the November, 1982 meeting of the National Commission on Social Security reform soon indicated that the Commission was not going to undertake the task implied in its name. There was no discussion about reform. No research had been done to learn what had gone wrong, why the system was bankrupt, what errors of Congress has used up all reserves and made the benefit program so costly. That failure to deal with the real need for reform can more readily be understood when one considers the make up of the Commission. Among the fifteen members were seven active and two former members of Congress. The activities of the Commission were basically "cosmetic", attempting with a minimum of adjustment to find the resources to continue the failed program. At the meeting they presented many options and alternatives, but could agree on no conclusions. A tragic result of creating the Commisson has been to delay for almost a year any real constructive discussion of the problems in order to arrive at solutions and reform of the system.

My investigation of the Social Security system conducted since mid-October, 1982, has revealed many facts and conditions which need to be brought to public attention and taken into account in formulating a program for the reform of Social Security. In addition, the reformed system should conform to certain well-established principles of taxation—equity, economic efficiency, fiscal efficiency, simplicity, and certainty.

A Social Security pension payment is primarily welfare. The complicated formula used to determine the benefits to be paid has no relation to reality. Since 1950, no one has paid total Social Security taxes in excess of $16,500. Information furnished by Central Life Assurance Co. of Des Moines, Iowa indicates that for $16,500 a person(s) age 65 could purchase a lifetime series of monthly payments as follows: a man—$185; a woman—$170; a couple—$156. Any amount paid in retirement benefit in excess of the above figures is welfare. Welfare payments should be kept at a minimum. Welfare should be dispensed on the basis of need. It is wrong that retirees can recover their entire cost in the program in two years or less, and continue to collect those inflated benefits for life.

Pension benefits must be reduced. Because there is no legal enforceability of benefit promises, necessary changes in benefits can be made. In a Supreme Court decision of 1960 the majority opinion stated that to engraft upon the social security system a concept of "accrued property rights" would deprive it of the flixibility and boldness in adjustment to ever changing conditions which it demands. A dissenting opinion asserted that the majority opinion says that the Government, in paying the beneficiaries, is merely giving them something for nothing and can stop doing so when it pleases.[1]

The program of annual cost-of-living adjustments (COLAs) in the years 1975 through 1982 has been a disaster. Not so much because of the intent of the program, but because of its implementation and effects. The cost of the automatic benefit increases has been staggering. In spite of an increase in the tax rate from 5.85 percent to 6.70 percent and an increase in the maximum taxable earnings base from $13,200 to $32,400, a beginning reserve of two hundred billion dollars has been used up. The compounded effect of the COLAs over the eight year period has been to increase the retirement benefits by 94.4 percent.

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[1] Peter J. Ferrara, Social Security: Averting the Crisis, pages 18-19

Even more serious has been the effect on the economy and unemployment. Both for the employer and the employee maximum annual Social Security taxes have been increased from $772 to $2,171, an increase of 281 percent. This ever increasing operating cost has made it more difficult for the employer to make a profit. Research has shown that increasing payroll taxes increases unemployment. Much of our high level of unemployment at the present time can be attributed to this excessive increase in Social Security taxes. Consequently, in the interest of economic efficiency one of the reform steps I am proposing is to reduce the Social Security tax rate and maximum taxable earnings base to 5 percent on $20,000. Our economy has almost reached the point where it can no longer afford the highly regressive Social Security tax.

The COLAs have never been handled correctly. A cost-of-living increase should be the same dollar amount for each beneficiary. To determine the cost-of-living the cost of a constant basic market basket of goods and services is totaled for a given year. If the cost-of-living in the next year is higher, the difference is the increase in the cost-of-living. The Consumer Price Index (CPI) measures the price change of a constant market basket of goods and services over time in relation to a base period, which is now 1967. To compute a COLA using the CPI, the amount payable to each beneficiary should be determined by multiplying the rate of increase in the CPI by a low level of benefits.

In the program of annual COLA's the percentage representing the rate of increase in the CPI should never have been applied across the board to all levels of pension benefits. The result has been vertical equity in reverse. For the past eight years an ever increasing payroll tax has been imposed on workers to give COLAs to low income retirees and massive transfers of funds amounting to hundreds of billions of dollars to middle income and wealthy retirees. Since 1970 average Social Security benefits, adjusted for inflation, have risen a remarkable 37 percent; average weekly wages, adjusted for inflation, have not increased at all. COLAs based on the CPI have over-protected the elderly from the effects of inflation at the rate of two percentage points per year.

I have constructed a reduced schedule of retirement benefits to replace the one now being used. For each year since 1974 I have made a computation to arrive at the dollar amount of COLA. In that computation the annual percentage increase in the CPI has been applied to the level of benefit for average yearly earnings of $3,000. The cumulative sum of annual computations is $183.90 per month and is reflected in the revised schedule. In applying the reduced schedule to current beneficiaries there should be no benefit reduction for a single person whose other income does not exceed $8,000 per year or a couple whose other income does not exceed $12,000.

Social Security pension benefits should be taxed. Recipients of Social Security retirement benefits will say: "I paid for my Social Security and I'm entitled to all the benefits tax free." Nonsense! There has been no funding for all the cost-of-living increases of recent years; no funding for the share of benefits paid to a spouse who has had little or no paid employment. In addition, the employer has taken as a deduction for Federal Income Tax purposes the amount he has paid in Social Security taxes. Social Security is the only pension not subject to income taxes. It is not fair to other taxpayers to keep on giving Social Security beneficiaries this free ride. Only those who can afford to pay will taxed.

I am proposing that Social Security retirement benefits be subject to a new tax, the Retirement Benefits Tax. This tax relies on figures from the Federal Income Tax return and uses its tax tables. Its purpose is to achieve horizontal equity between two retirees who have the same income resources available, but follow different investment, personal expenditure, or tax avoidance policies. This tax give Social Security a clearly identifiable source of revenue, not concealed among Internal Revenue collections.

Over the years other forms of retirement benefit have been created that in a sense compete with the basic Social Security pension system. These include public pensions, private pensions, Keough plans, IRA's, deferred compensation plans, and others. I am proposing that these other retirement benefits be made subject to the Retirement Benefits tax rather than the Federal Income tax as they are now. In this way the tax from these sources can be used to directly support and undergird the basic retirement system we call Social Security.

Social Security beneficiaries have the capacity to adjust to inflation and reduced benefits. Their income distribution compares favorably with that of the American people as a whole. In October, 1981, the Social Security Administration issued a publication titled Income & Resources of the Aged, 1978. It shows that at age 65 and after four sources provide almost all income: Social Security—38 percent; Earnings—23 percent; Other pensions—16 percent; and Asset Income—19 percent. Other information was given: "The majority of Social Security beneficiaries have other income. About one-half of the aged have some income from assets. Thirty-two percent of the elderly receive retirement pensions other than Social Security. For twenty-six percent Social Security is almost the only income." To obtain current data on income of the aged information forms should be secured from everyone drawing Social Security benefits. The information obtained can be used in reducing benefits and imposing taxes on benefits.

There should be some fairness of treatment between those who are working and paying into the system, and those who are collecting retirement benefits. If Social Security had been set up according to the stringent rules Congress has required for private pension funds, for those now working there would be a separate pre-retirement fund equal to the total of (1) their Social Security taxes paid in plus (2) the amount paid in by their employers in matching contributions less (3) a reasonable charge for providing disability and death benefits. Out of their Social Security taxes workers should be entitled to have reasonable and orderly payments made into a reserve fund. Those payments should be mandatory and should be made before money is spent on benefits. The accumulated reserve is necessary to alleviate difficult financing problems thirty years from now.

Congress should stop treating the elderly as a privileged welfare group. Social Security should be changed to a program under which benefits are determined on the basis of need. Social Security should be given a zero inflationary bias. This means no more increases in the Social Security tax rate or maximum taxable earnings base; no more increases in the schedule of benefits; no more COLAs. With no inflationary pressure from Social Security, Congress can work to control inflation for the benefit of all Americans.

RECOMMENDED STEPS TO BE TAKEN TO REFORM SOCIAL SECURITY

1. Make the Old Age portion of the Social Security system an independent agency.
2. Establish a fifteen member board to administer this new agency.
3. Reduce the payroll tax rate and taxable earnings base to a maximum of 5 percent on $20,000.
4. Set up a reasonable, reduced schedule of retirement benefits and maintain that schedule for an indefinite period. (See Appendix A).
5. Impose a Retirement Benefits tax on Social Security retirement benefits.
6. Make all other forms of retirement benefits subject to the Retirement Benefits Tax instead of the Federal Income Tax. (For 5 and 6 Appendices B & B-1).
7. Establish a Retirement Reserves Fund to accumulate two trillion dollars in reserves. (See Appendix C)
8. Broaden the number of workers to be covered by Social Security to include all Federal, State and local, and nonprofit employees forty years of age and younger.
9. Eliminate both the retirement earnings test and minimum wage for persons aged 65 and over.
10. Make other changes to improve and simplify the program.

APPENDIX A

Reduced schedule of retirement benefits

Average yearly earnings:	*Monthly primary benefits at 65*
$1,200	$235.10
$2,600	345.20
$3,000	378.00
$3,400	392.20
$4,400	428.70
$5,200	456.30
$6,000	483.40
$6,800	511.10
$7,600	543.20
$8,400	564.20
$9,200	582.40
$9,600	588.70
$10,000	596.50

APPENDIX B

RETIREMENT BENEFITS TAX

To be consistent with current principles now in effect, 100 percent of Social Security retirement benefits should be subject to tax reduced by the recovery of the taxpayer's cost over his life expectancy. His cost is the total Social Security taxes paid in by him, and 6 percent is a reasonable approximation of life expectancy. Other items of retirement benefits should be included in accordance with present income tax rules.

The Retirement Benefits tax is separate from but consistent with the Federal Income Tax return, which is the source of many of the figures used to compute the Retirement Benefits tax. In determining the Retirement Benefits Tax the starting point is Taxable Income Using Standard Deduction. To this amount is added certain tax preference items and from the result is deducted direct offsets against income (included in itemized deductions on the Federal return). After these operations the result is income resources available. After inserting the correct amounts for Social Security retirement benefits and for other retirement benefits two tax calculations are then made applying the income tax table or rates to (1) income resources available and (2) income resources plus the taxable portion of retirement benefits. The difference between the two calculations is the Retirement Benefits tax. This one or two page return is to be filed along with the Federal Income Tax return.

Direct offsets against income are mortgage interest on real estate sold on contract, interest on brokerage accounts not to exceed the related dividends, etc. Tax preference items include state and municipal interest, interest on all-savers certificates, and other nontaxable income or tax credits.

Appendix B-1 (sample return)

Retirement B

1983

(Taxpayer information details)

Single Taxpayer	Head of Household	Joint
☐	☐	☒

Computation of income resources available -		
Taxable Income Using Standard Deduction		$ 28,000
Add: Tax Preference Items		500
		28,500
Deduct: Direct Offsets Against Income		2,500
Income Resources Available ITEM A		$ 26,000
Add: Taxable Portion of Retirement Benefits -		
Social Security retirement benefits	$ 6,400	
Less Cost Recovery - 6% of $ 16,000	960	5,440
Other Retirement Benefits per Schedule		3,060
Total Income Resources Available plus Taxable Retirement Benefits ITEM B		$ 34,500
From Tax Table compute -		
Tax on Item B	$ 7,813	
Tax on Item A	4,899	
Retirement Benefits Tax	2,914	
Less Amount Withheld	2,400	
Amount Due	514	

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APPENDIX C

RETIREMENT RESERVES FUND

Accumulation of Reserves.—A Retirement Reserve Fund should be established to accumulate two trillion dollars in reserves. There should be mandatory monthly inputs into the fund out of Social Security taxes paid in, or from other sources. A proposed schedule of monthly payments into the fund is as follows: for 1983 two billion dollars per month; for five years from 1-1-84 three billion dollars per month; for five years from 1-1-89 four billion dollars per month; for five years from 1-1-94 five billion dollars per month; after 1-1-99 five billion dollars per month or such inputs as shall be feasible and required.

Investment Policy.—Receipts of the fund should be invested in a creative way to modernize production facilities and re-industrialize America. Investment should be primarily in industrial bonds for capital expansion or municipal bonds for local improvements, with emphasis on new issues. No Federal securities.

Use of Income.—At first income on fund investments should accumulate in the retirement reserves fund and be reinvested. Then, part or all of the annual income should be available to pay retirement benefits as follows: after four years, 25 percent; after eight years, 50 percent; after twelve years, 75 percent; after sixteen years, 100 percent.

Initial Input in Fund (optional).—Into the fund would be placed up to one hundred billion dollars of low-interest mortgages purchased with recourse from Savings & Loan Associations, which would receive in exchange 10 percent or 11 percent U.S. Treasury Bonds due in thirty years. The Associations would agree to continue to collect and process the loans without charge. Also, the Associations would agree to suspend for five years the enforcement of any loan provisions denying the right of an otherwise qualified purchaser of the real estate to assume an existing loan. The interest on the bonds would be paid out of the U.S. Treasury and the principal and interest collected on the mortgages would be paid into the Retirement Reserves Fund, and be reinvested by it. When the bonds fall due in thirty years, the Retirement Reserves Fund would be required to transfer to the U.S. Treasury the funds needed to redeem them. Mechanics of the continuing transactions would be handled through the Federal Home Loan Banks.

Mr. FOWLER. Mr. Thomas.

Mr. THOMAS. Thank you, Mr. Chairman.

Mr. Kimmelman, when you characterized social security as a minimally adequate pension program, most people talk about it as a supplemental, and it really is not a minimally adequate pension program on one basis. Do you assume that it is now or ever was intended to be a pension program?

Mr. KIMMELMAN. In looking back at the original hearings and looking back at the original considerations in devising social security, there were obviously many political concerns, but one of the actual real concerns was that it be provided as a pension that someone could get by on financially. Still, it never was meant to provide more than a 40-percent average replacement rate for earnings across the board.

But if you look at statistics today, you will find that the average beneficiary, with no outside income, who receives social security upon retirement would be just about at the poverty line. My concern is that a COLA delay, which is a benefit reduction, could drop those people below that line. Certainly, there is a need even with

Mr. THOMAS. Well, Mr. Kimmelman, I have difficulty in terms of your testimony because I noticed you included a quote from President FDR on signing the Social Security Act, and in its context it says that, "We have tried to frame a law which will give some measure of protection against poverty ridden old age. Some measure of protection."

So my assumption is that the President in signing the act assumed that it was to be "some measure of protection," and not "minimally adequate protection" as you characterized it.

Mr. **Kimmelman**. That is not right. The minimally adequate concept was taken from other statements made by FDR at that time and the committees studying the issue. This indicates that there was a "minimally adequate concept."

Mr. **Thomas**. Thank you.

Mr. Haislmaier, do you find any confidence in the statement that I read about today in the paper from Speaker of the House Tip O'Neill that he was opposed to any age change when we are in the process of hearing from folks on trying to revise the law, that he said he is now personally opposed to any age change? Do you find comfort in that?

Mr. **Haislmaier**. I did not read that statement. Do you have that with you, Congressman?

Mr. **Thomas**. I do not have it with me, but the process, my assumption was, was to go through hearings to listen to folks react to proposed changes and try to keep as many options open as possible.

Mr. **Haislmaier**. If I understand your correctly, Speaker O'Neill would object to any increase in the age at which you would receive benefits.

Mr. **Thomas**. He said he was personally opposed to the option of increasing the age in the outyears. And I wonder if you find any comfort in that.

Mr. **Haislmaier**. No, I do not at all.

Mr. **Thomas**. Mr. Robertson, you indicated you were the chief actuary between 1975 and 1978.

Mr. **Robertson**. Yes, sir.

Mr. **Thomas**. And in Mr. Davidson's testimony he characterized the tax of 1977, I guess, that puts you in a position at the time that the tax was proposed and passed.

Mr. **Robertson**. Yes, sir, it does.

Mr. **Thomas**. At that time, based upon your professional actuarial experience, did you think that merely increasing the tax would be sufficient to solve social security's problems for the foreseeable future as it was indicated at that time?

Mr. **Robertson**. If by foreseeable future you mean as long as 50 years or more, and I believe it was——

Mr. **Thomas**. That is the way it was characterized.

Mr. **Robertson**. No, sir, I did not think the increases were adequate. One of the principal things was that medicare was completely ignored at that time, just as we are attempting to completely ignore it now.

Mr. **Thomas**. In your testimony you indicated that the Commission merely states that taxes must be increased, benefits must be reduced, or the retirement age must be increased. And I would stress the "merely states."

You go on in your testimony, your written testimony, to indicate that most of the solutions offered were financial. If the Congress tries to solve the future financial problems without resolving the future design problems and thus gaining greater public support, its efforts will be in vain. What do you mean by "design problems" if you do not mean modifying retirement age or modifying benefits and modifying taxes?

Mr. ROBERTSON. I would include modifying the retirement age in the design problem. When we talk about a 1- or 2-year increase in the retirement age, it is totally unrealistic. People today aged 35 and 40 are going to be faced with retiring at about age 70 instead of age 65. We need to acknowledge that now so they can make plans for it.

As far as other design problems, it is my opinion that the only way that today's younger taxpayers will pay the taxes necessary to support a national program is if they view it as fair. And in order for that to happen, I think there has to be a closer connection between the taxes they pay and the benefits they get. And as they realize there is practically no connection between the taxes they pay and the benefits they get, they will be more and more reluctant to pay ever-increasing taxes that will be necessary for this program.

Mr. THOMAS. If we assume that the Speaker's wishes are not followed and that we in fact increase the age as is proposed by the Commission standards, to 66 in 2015, it would mean that someone who had retired earlier would still be able to retire at age 65 in the year 2000.

Based upon actuarial projections, that would be almost 7 years on a ratio between the working years and leisure years beyond what someone in 1940 retiring at age 65 would have. And for those people beyond 2015, the working years to leisure year ratio would be indexed so that someone like Mr. Haislmaier, if he gets a permanent job and pays into social security, would never have an opportunity of ever receiving a windfall, as the current beneficiaries now receive and as they will continue to receive through the year 2015 if this proposed program even goes into effect.

Given the size of the contribution that they have and windfall benefits, your projection was that there would have to be an increase to age 70 relatively soon. What leads you to believe that if we cannot today politically move the age from 65 to 66 in 2015, that we are going to be able to, seriously as a body, address the adjustment of the age to 70?

Mr. ROBERTSON. I have been talking about higher retirement ages for 8 or 9 years. Until about 2 years ago it was not generally discussed except by me. The last 2 or 3 years you have noted, undoubtedly, more and more talk in the press, and the media, about the possibility of a higher retirement age.

This Congress introduced a bill, I believe, about a year ago acknowledging we needed a higher retirement age. We are going to have to talk about this for another 5 years or so, and pretty soon the public will get used to the idea.

Now, the reason we will have a higher retirement age is not to resolve social security's financial problems. The reason will be we will need to redefine the ages at which people work if we are going to have an adequate sized work force to produce all the goods and services that this whole country needs. We simply will need older workers. We do not recognize that now, but within 5 to 10 years we will start recognizing it, and we will retain older workers simply because we need a larger work force.

Mr. **Thomas**. I thank all of you for your testimony.

Mr. Robertson, I think the general public is perhaps sometimes ahead of us. And at least in discussions that I have had, once you have explained to people that you are talking about a long-term program between 30 and 50 years for age increase, I have found no objection to moving the age up.

The difficulty is going to be when we put off doing the inevitable, and then it is a crash program when we do not allow for people to plan adequately. That to me is the major downside politically. But unfortunately, others disagree.

But I do want to thank you, because this is about the most diverse panel we have had, and it makes it a whole lot more interesting when you have diversity. Thank you very much.

Mr. **Fowler**. I also hate to let you go. I am expected somewhere else right now, so I am going to ask a couple of quick questions and then let Mr. Anthony finish up.

Mr. Robertson, as a former chief actuary, I come back to you. I keep hearing even in the diversity that we cannot seem to get right on our figures, not the figures far, far in advance, but you said, did you not, that in talking about the confidence of younger workers that they have got to be convinced that the benefits are there in some sort of ratio to what they are paying in.

Now, the figures that I think the subcommittee has been working with are approximately those that Mr. Davidson testified to, that people basically, beneficiaries, have been receiving five times more than what they paid in. And nobody can complain about that. Mr. Haislmaier may complain about it because of his ideology that the Government ought not to be doing that. But that is a pretty good ratio of return, 5 to 1.

Now, we have also been working with the figures, approximate, that I would like you to react to, you and Mr. Davidson, that if we adopted basically the proposals that the Commission has recommended, that that benefit ratio structure would be approximately cut in half and be about 2½ times the draw to what the individual taxpayer pays in. So that at least those recommendations are moving toward more, I guess, fiscal integrity by the proposed increases in the tax.

Do you disagree with those figures, Mr. Robertson, and if you do, does it depend upon whether you take, as you said, the pessimistic view or the optimistic assumption of what the economy is going to do?

Mr. **Robertson**. Those figures, sir, do not depend very much upon the way the economy performs. It is true, in my opinion, based upon studies that I have made, that if taxpayers the last 45 years had paid taxes equal to the benefits that they have earned or have accrued rights to, they would have paid five times as much in taxes as they in fact did.

Mr. **Fowler**. So it has been a sweet deal?

Mr. **Robertson**. It has been a sweet deal. Now, frankly, the deal for the young person entering the work force today is not as bad as it is frequently characterized to be. Studies by the Office of the Actuary of the Social Security Administration indicate that if we take a group of young people aged 20 to 24 entering the work force today and if they do in fact receive benefits from social security according to the present system and if they retire at age 63 to 65 under the present system, that generation of workers will receive benefits almost exactly equal to the taxes they and their employer will pay in the future. So they have a 1 to 1 ratio.

And that is not so bad for the new generation of employees, but naturally it looks pretty bad when a prior generation has received five times as much.

Now, another very important thing, though, is that although the entire class of workers entering the work force today would get back under the present system benefits equal to what they have paid in taxes, that does not hold true for each individual person. And some individuals, if they want to get their money's worth, should pay taxes of about 1 or 2 percent of their earnings, and some should pay taxes of 20 or 25 percent of their earnings.

So there is really not much equity in the system. There is not equity within generations. There is not equity among generations.

Mr. **Fowler**. Mr. Davidson, does the National Taxpayers Union support indexation of the tax code?

Mr. **Davidson**. We support a system which holds constant the portion of national income which is going to taxes, which I think we ought to recognize is just another form of indexation.

Mr. **Fowler**. But you know what I am talking about.

Mr. **Davidson**. I know what you are talking about, but I would like to characterize it a slightly different way. I am not trying to weasel around it.

Mr. **Fowler**. I do not mind your weaseling. Our time is limited. What I want to know is whether or not you support repealing the provisions in the current law?

Mr. **Davidson**. No, I do not support that. I think those provisions are an important part of what we need to keep in mind and understand when we are talking about raising the tax burdens on citizens. The Founding Fathers——

Mr. **Fowler**. Let me just pursue that. I know the rhetoric.

Mr. **Davidson**. But it is good rhetoric.

Mr. **Fowler**. I do not deny that, but please allow me to keep my train of thought.

Mr. **Davidson**. Sure.

Mr. **Fowler**. If you do not support that, would you support our elimination of all indexing wherever it were found in entitlement programs?

Mr. **Davidson**. That would be a very useful compromise. I am sure that——

Mr. **Fowler**. What if we put the two together, eliminating all indexation on the spending side and at the same time eliminating the indexation on the revenue side, which is the indexation of taxes, would you support that package as a responsible step back to where the Founding Fathers began?

Mr. **Davidson**. I can only speak for myself, and not from the point of view of the National Taxpayers Union, because that package has not been presented and addressed by our board of directors. Our board will certainly consider it. My personal position is this: that we have today in this country a very dire financial prospect primarily because the entitlement benefits have risen. Projections show ever higher deficits, at staggering levels, which will destroy the capital markets in this country and render moot all the questions which we are raising, or many of the questions we are raising about comfortable retirement for people in the future.

And I believe that the most important job we have is to somehow bring this trajectory of spending under control. What the Post pointed out yesterday and what we have been pointing out for some time is that Ronald Reagan has not brought spending under control. He has not brought domestic spending under control.

Spending was under better control when Carter was in the White House, and it was not under control then. We are in a position where the cause of this problem is this upward trajectory at almost an asymptote of the expenditures of Government. And we have got to bring those under control.

I think every citizen has to pull up his socks, in some measure, to do that. I would be willing to pay higher taxes if that is what we needed as a part of a deal to bring this total fiscal irresponsibility under some manageable control so we could then in the future decide how we want to divide the national revenues. But let us not destroy the country in the process, just following along with the blind momentum that we have set up in these policies.

Mr. FOWLER. Well, I think I am going to introduce as a first step a moratorium on all speechmaking.

Mr. DAVIDSON. I hope I have not inspired that. [Laughter.]

Mr. FOWLER. No, I was not directing that specifically at you. I think that it is ironic that we phrase all of our suggestions in such apocalyptic terms. Only 2 years ago we heard that $65 billion of deficits were not only obscene but that the fabric of American government absolutely could not stand it. Now we are going to have a $200 to $300 billion deficit. Nobody likes it, but the sky is not falling, and it will not fall until the recovery begins. It is then that we will have some problems.

Mr. DAVIDSON. May I address a point that you brought up with Mr. Robertson which I think is very important? That is the payout ratio for the coming generations. A lot of it is predicated upon the notion that the economy will enable us to sit still for ever higher portions of the payroll tax going into the social security program.

I think that we have very good evidence from the case of Italy, which is one of those nations which has pioneered the idea of extraordinarily high payroll taxes, that what we are really doing here is setting a prescription to drive out of the aboveboard economy a great portion of our national output. When the Italians went hogwild in increasing their payroll taxes in order to fund the very kinds of programs which we are talking about today, what they did is just totally turn their economy inside out and you have a tremendous portion of the Italian GNP in the so called underground economy. Every expert I know of says it is growing in this country.

And we just will not be able to get people.

Mr. FOWLER. Well, I will discuss the Italian economy with you and give you some additional information.

Mr. DAVIDSON. Well, I think that should be a warning to us that we cannot expect to pay 30, 40, 50 percent of our total payroll in social security taxes, because the world has too many margins that people can shift in.

Mr. FOWLER. I thank you all for your testimony.

Mr. Anthony.

Mr. **Anthony**. Thank you, Mr. Chairman.

I have a couple of comments and also a couple of questions. But first I would like to give a warm welcome to my colleague from Arkansas, Mr. Bush. He unfortunately does not live in my congressional district.

The two comments that I have: One, there was a statement earlier, and I am not sure exactly which witness made the statement, that in talking about COLA's indicated that it was a fundamental element and, as a result of the Commission's recommendation that there be a 6-month postponement, would be opposed to that portion of the Commission's report.

I think that was you, Mr. Kimmelman.

Mr. **Kimmelman**. Yes, it was.

Mr. **Anthony**. The only comment I have to make about that is that COLA did not originate with the social security system, and in fact the social security system lived for some 25 years without automatic yearly increases. And it was only personally, I think because of political Presidential politics that it got initiated in the law to begin with and that it was put forward as a smart idea.

And in fact what the Congress had done is use its responsibility of oversight from time to time to try to see to it that the beneficiaries were caught up. But it was not done on an automatic basis.

And that due to the fact that we did index it on an automatic basis and we had an extraordinary period of time where we had high inflation and we had prices outstripping wages, at the same time running larger amounts of unemployment, that that is really the reason we are here today, because no one, even though the Commission in 1977 could foresee such an unusual set of economic events. Personally I think we need to keep telling the beneficiaries that COLA was something that was put in. It was political in nature when it was put in. It should be considered political in nature when we are talking about a postponement.

And by my own calculation, if you use your testimony of $1,000 over that period of time, we are only talking about an investment of $12 per month on the average for 6 months to insure that the social security system will be solvent for the whole.

And I think that is a fairly small investment, even for those people who maybe only draw their entire income from social security benefits. I happen to represent a constituency that approximately 25 percent of them basically live on their social security benefits. So I am very, very cognizant not only of the personal trauma that that causes but also the political consequences of trying to do something.

And we are also not talking about cutting benefits when we are talking about tying them to a rate of CPI that maybe the lower of wages or prices. We are only talking about lowering the increase of benefits that we are going to be awarding. And again it is not because we want to do it, it is simply because we realize that there are some hard choices. And that may be one of the choices.

I will give you an opportunity to respond to that if you would like.

Mr. **Kimmelman**. Congressman, I agree with everything you said. It is totally accurate. I would just like to point out that there are a lot of people who could do without the COLA increase. They could do completely without it or part of it.

The point I was trying to make, though, was that under these difficult financing conditions for social security, it strikes me as a bit odd that in addressing the question we also force the people who are right on the margin to bear that burden.

If the COLA is too generous, if there were a way of giving differentiated COLA's that were not administratively difficult to handle, that might be a solution. But my own personal preference would be to maintain the COLA and to tax benefits so that anyone who is getting too much of this generous additional amount that Congress has decided that recipients should have, that those people are the ones who will give some of it back.

I would think that would be the most administratively easy way of doing it while also protecting the people who are right on the margin, barely making it.

Mr. ANTHONY. Good. Thank you for your comment.

One quick comment and then a question for Mr. Haislmaier.

I must agree with you 100 percent, Mr. Robertson. I was disappointed that the Commission did not do any more in the area of hospital insurance medicare/medicaid, because that is a problem that is creeping up on us at fast speed.

But let me tell you that last year we did something, hopefully, to address that. We did ask the administration to come forward with a new plan, prospective payment. They did come forward, filed it toward the end of December. The Health Subcommittee is in the process of marking up that piece of legislation right now.

There will have to be a decision made by the leadership of our body as to whether or not to hope or to attempt to attach that particular piece of legislation to the social security legislation. But I think whether or not we attach it to the social security legislation, that it will take a track on its own and medicare as a result will be addressed not only for 1984 but for the outyears.

So we look forward to your working with us in trying to put together that particular package, because you have really hit on a very, very missing element of this whole financing program.

My question to you is, since you are the young person and I have asked the special interest people who have come forward this—I cannot get an answer from them because they are here to represent their special interests—let us say that you went on an interview for a public service job tomorrow, the post office, someplace on the Hill, a Member of Congress, whoever, and that the law was that you had to pay into the social security system as a new hire of the Federal Government. And you sat down and you looked at the benefit program that is now available. The civil service retirement system right now says that you have got to work 5 years to vest and that if you do not work those 5 years all you do is get your money back with no interest, that you have no built-in portability of those benefits.

So that would be one retirement system. You would have to work for 5 years, you would vest, and then whatever you pay in and what is matched and what the defined benefits are, you would receive. You have an opportunity then to get social security benefits plus a supplemental civil service retirement program.

Under social security it is going to be first year portability. Your spouse is going to be covered. Your children are going to be covered. You are going to have disability insurance benefits. You are going to be covered under medicare. They are already covered under medicare now because of past legislation.

My question to you is: In weighing those two benefit packages, would you choose one over the other?

Mr. **Haislmaier**. Well, of course, I would have to eventually. I mean I am not a member of that constituency, so I have never actually weighed those benefit packages. I am not sure of all of the details of them either.

Mr. **Anthony**. Well, not taking anything as true other than my hypothetical.

Mr. **Haislmaier**. Well, your hypothetical paints a very rosey picture of social security. The transferability aspect of it, the fact that your spouse and your dependents are covered. Yes, it sounds very nice. It sounds like an ideal benefit program. And I suspect that someone probably put that hypothesis forward in 1936 to a witness before the Ways and Means Committee.

Mr. **Anthony**. But what I am saying is on January 1, 1984, if the Congress accepts the Commission's report, every new hire to the Federal Government is going to have to make that decision.

So I think it is a logical question, and I would ask the young people today would it motivate them to go into public service or would it be something that would scare them off? Since you as a young person really attacked the social security system and what it has given to you and what it has given to your father and your forefathers and what it is promising to give to you and your children.

Mr. **Haislmaier**. It would certainly scare me off, and I think it would scare off a substantial number of my peers. But the fact of the matter is that when it comes down to it, if this package passes, they would simply say, "well, that is just another place where we cannot escape social security."

I mean you are essentially saying there is no way to escape it. You are going to take States, localities, the Federal Government, nonprofit organizations. Believe me, Congressman, that is a tax that is deeply resented. That is a tax that our age group pays. I am 25 years old and have been working, most of it part time, since I was 16 to pay for my schooling, et cetera. I have yet to pay more in Federal income tax than I have in social security.

And as far as believing the numbers, I would believe the most pessimistic assumptions. You go all the way back to the actuarial—and this is not to impugn the efforts of any actuaries—but you go back to all of the actuarial assumptions, all the way back to the inception of the program. At that time the assumption was that the Federal Government would be paying out $1.3 billion in benefits in the year 1980. And instead, it paid out $173 billion.

Mr. **Anthony**. Just one final question, another hypothetical. Assuming you were a Member of Congress and the package that came to the House floor for a vote addressed both the long term and the short term, and the short term was comprised basically of what the Commission has recommended with very few changes.

Hypothetically, as a Member of Congress, would you vote for or against that?

Mr. **Haislmaier.** I do not believe there is a distinction between short and long term. The short term is simply the immediate manifestation of the long term.

Mr. **Anthony.** I am just asking you if you would vote.

Mr. **Haislmaier.** I would vote against this package. I do not expect Congress to do that. But I would.

Mr. **Anthony.** Well, each is going to have to make his own mind up, and as a hypothetical Member of Congress, you had an opportunity to express how you feel about it.

Well, I too thank the members of this very diverse panel. Like the old saying goes, we save the best for last.

Our thanks to the full committee for your expertise and your indulgence of our questions. We will be in adjournment until 9 a.m., Wednesday, February 9, 1983, which is the final day of our hearings. And I understand we have some approximately 44 witnesses scheduled for tomorrow.

And thank you again.

[Whereupon, at 4:25 p.m., the subcommittee adjourned, to reconvene at 9 a.m., Wednesday, February 9, 1983.]

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